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NEWS SUMMARY

GENERAL

Ankara siege boost for PLO

The Palestine Liberation Organisation stands to make considerable political capital out of its success in negotiating the surrender early yesterday of the four young terrorists holding 13 hostages in the Egyptian Embassy in Ankara.

The Turkish Government, which flew four PLO officials from Baghdad to intervene in the drama, is expected to show its appreciation by allowing the PLO to open an office in Ankara —a decision on which it has been dragging its feet for three years.

Turkish Premier Bulent Ecevit, clearly strengthened by his Government's firm handling of the situation, emphasised that no concessions had been made to the terrorists. Three people died earlier in the 45-hour siege. Back Page

Rhodesia reality

There is no point in anyone closing his eyes and refusing to see the new realities in Zimbabwe Rhodesia since the May elections, Kenya's Vice-President Mwai Kibaki said. He urged Africa not to appear in be encouraging Africans to fight Africans. Back Page

Left campaign

Labour Left wingers will continue their campaign to reduce the powers of the party leader and reinforce their own influence on future policy when the home policy committee under Mr. Anthony Wedgwood Benn today considers a critical report on the party's last election manifesto. Page 3

Mosque attacked

At least six people were killed and 52 injured when a grenade was thrown into a mosque in the Iranian port of Khorramshahr. The Iranian border town of Marivan was under the control of autonomy-seeking Kurds after fighting in which 22 people died. Page 2

Laker to sue

Sir Freddie Laker warned as his Skytrain service from London to New York resumed that he was determined to go to court to regain the £7m his airline lost as a result of the grounding of his DC-10s. Page 3

Priest stabbed

British-born Jesuit priest Father Bernard Darke died in hospital in Georgetown, Guyana, after being stabbed while taking photographs of a clash between demonstrators outside a courthouse.

Ennals plea

David Ennals, former Social Services Secretary, urged the Prime Minister to back the proposal by the Standing Conference on Refugees that a British mercy ship should pick up Vietnamese boat people in the South China Sea.

Away to Italy

Great Britain completed a 4—1 win against Spain in their Eastbourne Davis Cup tie and now face a tough away tie against Italy in September. Page 9

Briefly . . .

Two Soviet cosmonauts on board the Salyut-6 research station broke the 139-day record for man's longest stay in space.

Bomb killed a woman and injured 12 other people near a Madrid bar frequented by Left-wingers and intellectuals.

About £18,000 in dollars went up in smoke in Israel when police fed them into an incinerator thinking they were counterfeit.

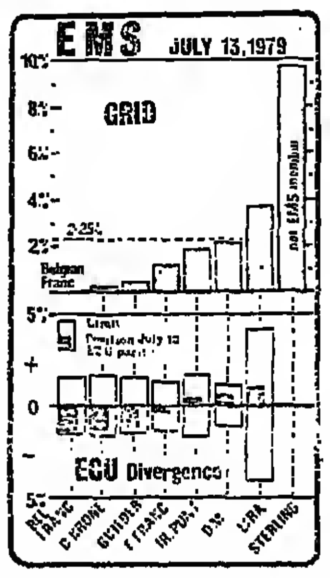
Salvage workers righted the Tarpeohek, the German tanker which capsized off the Sussex coast a month ago. Page 4

BUSINESS

Iran welcomes foreign investors

● IRAN'S planning chief, Ali Akbar Moinfar, said his country welcomed foreign investment and hoped for participation in essential industrial projects, provided this involved the transfer of technology. Page 2

● BELGIAN franc continued to be the weakest member of the European Monetary System but remained within its maximum permitted divergence against the ECU. A rise in West Germany's key lending rates on Thursday was preceded on Wednesday by widespread intervention by central banks selling D-marks. On Friday, however, the D-mark was 0.59 per cent stronger on an adjusted basis against its central rate and was second only to the Italian lira, which remained the most improved currency in the system. The D-mark was quoted at BFr 16.0404 compared with a ceiling level of BFr 15.0740.



This diagram shows the two constraints on exchange rates within the European Monetary System—the "grid" of cross rates from which no currency (except the lira) may move more than 2¼ per cent, and the rargest divergence by which each currency may diverge from its "central rate" against the ECU itself a basket of European currencies. The "grid" is always shown by reference to the weakest currency in the system, which is the base line in the top chart.

● REVENUE from uncovered tax frauds doubled in the first full operating year of the "new approach"—the policy of investigating in depth selected self-employed taxpayers. Page 3

● EEC Finance Ministers meet in Brussels today to discuss the implications of recent oil price rises, which are expected to reduce the Common Market's trade surplus by nearly half this year.

● HIGH LEVEL of interest rates should be eased by early September, according to stockbroker Wood, MacKenzie and Co. Page 3

● OXFAM, the UK-based overseas charity, increased its income by 26 per cent to £9.7m in 1978-79 and its disposable income by £1.75m to £8m. Page 4

COMPANIES

● RUDOLF WOLFF, London metal brokers, confirmed it had agreed in principle to buy Eurocommodity Chart Services, a wholly-owned subsidiary of Eurocommodities, the company that went into voluntary liquidation with estimated losses of more than £500,000. Page 3

● AMP, the U.S. electrical terminals manufacturer, expects earnings for the second quarter of about $30m (£13.5m), against $24.2m previously. Page 13

● NATIONAL TRADING of South Africa reports a 55 per cent increase in pre-tax profits to R2.15m (£1.15m) for the six months to June 30. Page 13.

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Regional aid cuts expected to total about 20%

BY ANTHONY MORETON AND JOHN ELLIOTT

Wide-ranging cuts in Government regional aid for industry, aimed at reducing the cost of the programme by about 20 per cent, are expected to be announced today by Sir Keith Joseph, the Industry Secretary.

He will also announce that the Government is maintaining most selective industrial aid schemes, including support for major inward investment projects.

These are the first of a series of policy decisions to emerge from the Industry Department during the ten days before Parliament rises for the summer recess.

Later this week the Government will make decisions about the future role of the National Enterprise Board, including sales of some of its assets such as the holdings in ICL and Ferranti. This will be followed by statements on the shipbuilding and aerospace industries and perhaps on splitting the Post Office into two corporations.

Today's announcements in the Commons are likely to receive a hostile response from various areas of the country and from some parts of industry.

But the Government hopes that it has defused the risk of a major political row by concentrating its regional aid in areas of greatest need, and by spreading some of the changes over three to four years.

There are to be cuts in the areas which qualify for development aid, with some places either losing their assisted status, or downgraded.

The rates of grant for plant and buildings are to be reduced, with development areas coming down from 20 per cent to about 15 per cent, while the 20 per cent grant for buildings only in intermediate areas may be phased out.

The object of these changes is to concentrate aid in the worst-hit regions, covered by 10 special development areas, where the 22 per cent rate of grant is likely to remain unchanged.

The minimum size of project qualifying for aid is to be raised from the present threshold of £100 for plant and £1,000 for buildings. Figures as high as £1,000 for plant and £10,000 for buildings have been discussed by Ministers, but it is thought that levels nearer £500 and £5,000 have been chosen.

These changes will provide the lion's share of cuts in the regional aid budget, which at present costs £500m a year for England alone. Further savings will be in the Government's factory-building programme to

Continued on Back Page

News Analysis, Page 3

Regional Development Grants (present rates)

	New plant and machinery %	New buildings and works %
Special Development area	22	22
Development area	20	20
Intermediate area	nil	20

Northern Ireland is treated separately.

NEB SEEKS TITANIUM AID

The National Enterprise Board wants the Government to provide up to £20m immediately to build a titanium production plant for Rolls-Royce aero engines. The NEB's plan to create an electronics holding company out of its stakes in Ferranti, ICL and other concerns, is likely to be vetoed. Back and Page 12

CEGB chooses U.S. reactor

By David Fishlock, Science Editor

THE CENTRAL Electricity Generating Board has finally chosen the foreign design of nuclear reactor it wants to build as a demonstration project in Britain.

If all proceeds smoothly, the nuclear industry believes it may be ready to start construction of the new nuclear station, of about 1,200 MW, early in 1981.

The choice is the Westinghouse Electric pressurised water reactor (PWR), one of four designs of PWR the CEGB has been investigating since the Labour Government approved its plan in January last year.

This plan called for construction of a big PWR in Britain to a design approved by the Nuclear Installations Inspectorate of the Health and Safety Executive.

Its aim was to build this demonstration in parallel with the latest design of advanced gas-cooled reactor (AGR), in order to compare the time and cost of construction.

The CEGB is now in the final stages of discussing its choice with the Nuclear Power Company, Britain's main reactor design and construction group, before submitting it to the Government.

Major features of the choice are the considerable assistance it believes Westinghouse will provide in transferring technology to Britain and the fact that 38 Westinghouse reactors — more than those of any other supplier — are already operating in the U.S. and Europe.

The CEGB's decision will be a blow to the hope of a new international nuclear consortium called RNC (Nuclear) set up late last year by Rolls-Royce.

Rolls-Royce's collaborators are Northern Engineering Industries, the North-Eastern engineering group embodying Reyrolle Parsons and Clarke Chapman and the U.S. nuclear company Combustion Engineering. This was the grouping through which Combustion Engineering chose to make its bid for an international market for its System 80 PWR.

So eager was Combustion Engineering to secure the British contract as its first reactor sale overseas that it made available to the CEGB a full safety report, including details of the reactor design, going far beyond anything Westinghouse has disclosed.

Also rejected by the CEGB are designs by the Siemens subsidiary Kraftwerk Union, and by Babcock and Wilcox of the U.S.

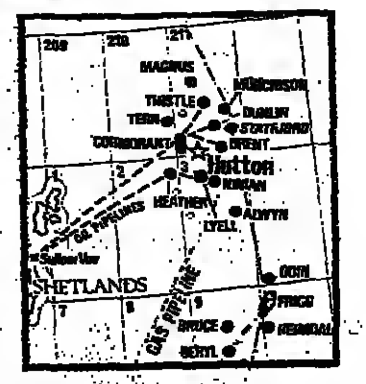
More North Sea oilfields to be developed

BY KEVIN DONE, ENERGY CORRESPONDENT

FOUR North Sea oil groups will approach the Government in the next two months for permission to develop new offshore oilfields at a cost of more than £1.5bn.

Conoco, the U.S. oil company, and seven other companies including the British National Oil Corporation and the British Gas Corporation, have decided to press ahead with the development of the Hutton Field.

At the same time the Thistle Field group, for which BNOC is the operator, will soon ask the Government for permission to develop a further oil accumulation in block 211/18.



In addition to these two projects a group led by Marathon Oil of the U.S. is expected to file a development application with the Energy Department in early August for the £600m-£700m development of Brae Field, and the Mobil group is close to seeking permission to extend the Beryl Field with the construction of a second platform.

For the Hutton Field it is planned to use a revolutionary platform design which has not been used for a full commercial development.

The eight-member group decided last week, after several months' discussion, to develop the field by using a floating tension leg platform instead of a conventional fixed steel platform.

The Hutton Field located to the east of the Shetland Islands, between the Cormorant and Brent fields, will be an important proving ground for the sort of technology that will probably be used for developing oilfields that are found in, particularly, deep water.

The Hutton Field lies in 482 feet of water, and Conoco, operator for the field, maintains that even in such relatively shallow water a tension leg platform is already competitive with traditional systems. In deeper water it would have much more marked economic advantages over fixed platforms.

The Hutton Field is a relatively small North Sea field with recoverable reserves estimated at about 250m barrels of crude oil. It could cost £600-£700m to develop.

Design contractors should be appointed by the end of the year and Conoco hopes to bring the field into production by early 1984. Peak output is likely to average a little over 100,000 barrels a day.

The Hutton Field is spread over two North Sea blocks, 211/7 and 211/28, and will be developed by a group of eight companies consisting of Conoco, BNOC, Gulf, Amerada Hess, Amoco, Mobil, British Gas Corporation and Texas Eastern.

In the Thistle Field BNOC is planning to install up to six subsea wellheads to the north of the field to cap an extra 50m barrels of recoverable crude reserves.

The subsea development could cost £60m-£90m and is the first step to exploiting several unconnected oil structures in the Thistle block. The partners in the field are BNOC, Burmah, Charterhouse, Deminex, Santa Fe, Tricentrol, Ultramar, Gulf and Conoco.

The Brae Field will be developed with a conventional fixed steel platform. It is likely to have a peak output of 100,000 barrels a day and is expected to start production in 1983.

Members of the Brae group are Marathon (operator), BNOC, Bow Valley, Kerr McGee, Ashland, Ashland Canada, Siebens, Saga and Louisiana and Land Exploration.

The Mobil group, which wants to extend Beryl Field, includes British Gas, Amerada Hess and Texas Eastern.

DECISION ON BNOC SOON

The Government's decision on the future of the British National Oil Corporation is expected to be made known soon. But until then, delays in confirming offshore licences may stop new exploration work beginning this summer. While the Energy Department is urging an increase in drilling, the oil companies will not act until their licences are approved. Back Page

Political crisis in India as Desai stands down

BY K. K. SHARMA IN NEW DELHI

MR. MORARJI DESAI stepped down yesterday as Prime Minister of India, yielding to growing pressure only after the desertion of most of his Cabinet colleagues and of the members of the ruling Janata Party in Parliament.

Mr. Desai's resignation, after 28 months in office, places an unprecedented constitutional burden on the President, Mr. Sanjiva Reddy, who must now find a new Prime Minister. He has asked Mr. Desai to remain until this process is completed.

At the end of a week of political crisis Mr. Desai has agreed to resign only after it had become clear that he faced certain defeat in a parliamentary vote of confidence today.

There is considerable confusion here as to what will happen. The strongest contender for the Prime Ministership is the Harijan (untouchable) Deputy Prime Minister and Defence Minister, Mr. Jagjivan Ram.

The situation has been complicated by the Janata Party's disintegration after the large-scale defections which took place over the weekend. The initial break from the Janata parliamentary party came when Mr. Raj Narain, former Health Minister, formed his own group in the Lok Sabha (Lower House of Parliament) when last Monday's session began.

However, the Janata parliamentary party remains the largest single group in the Lok Sabha. There is no certainty about the process of elections of the new Prime Minister.

There is no precedent for this in India, since a Prime Minister has never had to resign because he or she had lost their majority. Several untested constitutional issues arise, and the President is expected to play a key role. It is known that he does not favour the holding of a mid-term General Election which would greatly favour Mrs. Indira Gandhi.

This means Mr. Reddy will explore all possibilities of forming a new government. Under present circumstances, this seems likely to be a coalition and it is possible that a realignment of political forces will take place.

Within the Janata Party, the tussle will be between the two Deputy Prime Ministers — Mr. Ram and Mr. Charan Singh. At meetings of Janata leaders in the past two days, the move to make Mr. Ram the leader in place of Mr. Desai had gained considerable momentum.

Mr. Ram and Mr. Charan Singh were even in 1977 contenders for the prime ministership and differences between them led to the choice of Mr. Desai.

General Motors in key pay talks

BY JOHN WYLES IN NEW YORK

GENERAL MOTORS and the United Auto Workers today start crucial negotiations on a new three-year contract which could have a significant impact on the U.S. economy over the next 12 months.

Similar bargaining sessions will also start with Ford and Chrysler later this week. But as the September 14 expiry of the car industry's agreement approaches, attention will be increasingly focused on GM.

This is because GM is virtually certain to be the UAW's strike target if negotiations are deadlocked by mid-September. Ford was hit by a strike for several weeks in 1976 and Chrysler has been virtually ruled out by the union because of its financial weakness.

The car industry has not concluded its triennial bargaining round without a strike for 15 years and several factors this year point to a period of extremely tough bargaining.

The overwhelming problem for both sides is the high inflation rate—now officially forecast by the administration as likely to be 10.6 per cent for this year and more than 8 per cent next year.

Health and welfare benefits which the companies provide free have substantially increased their labour costs. At the end of last year, the average hourly wage and benefits costs of GM's 497,000 hourly paid workers was $14.09—a 30 per cent increase over three years.

With its profit margins substantially lower than five years ago, GM is anxious for as modest a settlement as it can obtain. Since its stocks of new cars are at very high levels, and may be even higher by the end of September, the company may be ready for a trial of strength with the union.

Although earlier in the year improvements in non-wage benefits and for pensioners appeared to be the UAW's priority, continuing high inflation is increasing pressure from its membership for a substantial pay rise.

GM is the largest industrial company in the U.S. with sales last year of $62.3bn. It spends about $32.7bn a year at supplier companies, and most economists agree that a long strike at GM would deepen the recession forecast for this year

U.S. bank sues Lloyd's for $10m

BY JOHN MOORE

THE BANK of Lincolnwood of Chicago, U.S., is suing 55 Lloyd's of London underwriting syndicates for $10m punitive damages. Its action arises from computer leasing insurances which are expected to produce the largest loss that the Lloyd's insurance market has ever experienced.

As part of its action Bank of Lincolnwood is suing the First National Bank of Boston, the bank which has been engaged by Lloyd's to help in the settlement of claims on computer leasing insurances.

Other defendants in Bank of Lincolnwood's actions are All Risks Ltd., an American insurance broker, and Federal Leasing of Virginia, a computer leasing specialist.

Federal is already suing Lloyd's underwriters and various insurance companies for a total of $628m in connection with the controversial computer leasing insurances.

Bank of Lincolnwood is seeking to recover $600,000 from Federal in connection with its computer leasing insurance arrangements at Lloyd's.

Federal used its Lloyd's computer leasing policy as collateral for loans it arranged with Bank of Lincolnwood to finance its operations.

Computer leasing insurances were arranged by leasing companies to insure against their customers terminating leases earlier than the contract date. If they did, the computer leasing company could claim on its insurances and cover its obligations to the financial institutions which had backed its operations.

Federal is claiming $28m from Lloyd's in unpaid insurance claims. The remainder of its $628m action is a claim for damages.

Lloyd's has been given until August 13 to answer both the Bank of Lincolnwood's and Federal Leasing's actions. But moves are in progress in London by Lloyd's legal representatives to arrange for a later date for reply.

Background, Page 10

Carter battle to stop 'drift'

BY JUREK MARTIN, U.S. EDITOR, IN WASHINGTON

PRESIDENT CARTER yesterday put the finishing touches to what, by common consensus, was to be the most important speech in his political career and perhaps one of the most significant delivered in modern times by an American head of state.

His nationally televised address was not merely expected to provide the outlines of new energy initiatives but also to lay bare his feelings on the sense of drift he detects in the country and how he can reverse the tide.

Journalists who spent Friday lunching with Mr. Carter at the Camp David Presidential retreat reported that the President was "a deeply worried man," concerned at the collapse of his own credibility and at the pervasive national mistrust of both politicians and institutions in the public and private sectors.

Mr. Carter is said to have admitted to many of the nearly 150 people he has consulted in his 11 days of seclusion that he has not provided the sort of leadership the country expected, partly because he feels he has been too insulated from the wide rang of views ha ought to have been tapping. This perception of isolation has been a common complaint from presidents over the years.

The details of the energy plans are expected to be fleshed out today when Mr. Carter makes speeches in Kansas City and Detroit. But he is said to be considering a *multi-faceted ambitious* programme designed to cut U.S. oil imports by as much as 5m barrels a day by 1990; the current level is just over 8m b/d.

This may be achieved by a major drive to develop synthetic crude, restoration of his standby authority to ration petrol, greater exploitation of coal and other sources of energy, creation of a National Energy Board to direct major projects and *eliminate red* tape, possible invocation of oil import quotas, and some action to move domestic oil and gas prices more quickly to world levels.

Six killed in south by grenades

By Our Own Correspondent

VIOLENCE broke out yesterday in the southern town of Khorramshahr in some of the ugliest incidents since fighting began there at the end of May between Iranian Arabs seeking autonomy and the Persian community.

Six people were reported killed and more than 50 injured when grenades were thrown into a crowd of several thousand people gathered at a mourning service in the town's main mosque for a revolutionary guard killed in Khorramshahr last week.

Revolutionary guards later attacked the home of the leader of the Arab community, Sheikh Mohammed Taher al-Shobbeir Khaghani, where three or four more people were reported to have been killed.

Admiral Ahmad Madani, Governor General of Khuzestan province, went yesterday to Khorramshahr to investigate the trouble.

Meanwhile in Tehran, an attempt was made yesterday on the life of Ayatollah Razi Shirazi, head of one of the revolutionary committees operating in the north of the capital.

Also in Tehran, the trial has begun of a former health minister, Shojaedin Shaikholeslamizadeh, arrested on corruption charges by the Shah's government last autumn.

Iran 'open to joint ventures'

BY OUR OWN CORRESPONDENT

IRAN WELCOMES *foreign* investment under certain conditions and is hoping for foreign participation in essential industrial projects, provided this involves the transfer of technology, according to Mr. Ali Akbar Moinfar, its planning chief.

As an example of the kind of *foreign* investment Iran wanted, Mr. Moinfar pointed to the huge Iran-Japan petrochemical company joint venture in which a Mitsui-led Japanese consortium has a 50 per cent stake. *Original* investment in the project was set at \$2bn, but is now up to \$3.3bn.

The Minister did not comment on the many other joint ventures in which foreign companies have invested, most of which are still under review.

The main outlines of Iran's \$34.7bn budget were made public on July 1, but four days later the Government announced the nationalisation of key industries. Mr. Moinfar said yesterday that changes as a result of nationalisation would be incorporated into the budget after economic studies on industry had been completed.

The budget would be forwarded to the Revolutionary Council for review and its final shape would depend on the council's view, he said.

In view of the Revolutionary Council's role in the economic management of Iran, economists did not expect the budget details bended out yesterday to be of any real significance in interpreting the future for the economy.

Mr. Moinfar's budget does not provide a clear picture of the Government's development plans, and there is no breakdown of expenditures by economic sector. In reply to questions concerning specific areas such as agriculture and mining Mr. Moinfar said only that "adjustments will be made as the need arises."

The Government's reluctance to be more precise in its planning, combined with the threat of arbitrary changes by the clergy is effectively paralysing economic activity in Iran and has led to a serious deterioration in private sector confidence.

Many foreign investors are more pessimistic about the future of their interests in Iran than at any time since the revolution and are considering pulling out altogether.

Oman price up

OMAN is reported to have increased the price of its crude oil by about 20 per cent, backdated to July 1, from \$18.30 per barrel to \$22, Reuter writes from Doha. In April, Oman increased its oil price by about 22 per cent from \$14.96 a barrel.

Bonn admits exceeding North Sea cod quota

By Christopher Parkes

WEST GERMAN fishermen took "substantially" more cod from the North Sea last year than they were entitled to under an agreement with their Common Market partners, Herr Gerd Mocklinghoff, Germany's Federal Director of Fisheries, admitted at the weekend.

In an agreement reached between eight Community countries in West Berlin in January last year, West Germany was allocated a cod quota in the region of 26,000 tonnes. In the event, German trawlers took up to 10,000 tonnes more, officials said.

Britain had no part in the agreement, which was reached at the height of the battle over a common fisheries policy, when the stubbornness of Mr. John Silkin, then Minister of Agriculture, led the eight to seek an interim pact among themselves.

The news stirred interest in the British Ministry of Agriculture yesterday and appeared to confirm charges made on television by Mr. Silkin that catch quotas were being flouted.

The Ministry commented that it had noted the news "with considerable interest" and that the high catch seemed "odd," given the agreement on quotas. Mr. Peter Walker, the Minister will undoubtedly use the information as a lever in his attempt to gain concessions for UK fishermen.

German officials said the catches occurred during an exceptional season when cod were plentiful in the German Bight and when the traditional saithe fishery in the Southern part of the North Sea produced disappointing results.

Some German fishermen have, however, been fined for exceeding the quota and they are protesting that Dutch, Danish and other Community fishermen who also took more than they were allowed have not paid any penalty.

The British Fishing Federation said yesterday it was annoyed and alarmed at the over-catching. "If the Germans went over the top by this amount, what did the others do?" a spokesman asked.

He said that considerable damage had been done to future cod fishery prospects in the North Sea since the bulk of the fish taken were less than three years old and had not yet matured and spawned. Cod spawn at seven years of a...

Offer to Irish tanker drivers

By Our Dublin Correspondent

THERE ARE hopes of an early settlement of an unofficial dissettlement of an unofficial dispute involving oil tanker drivers and jetty workers in Dublin, which had threatened to upset Ireland's delicate oil supply situation.

Union officials were optimistic that proposals made through the Federated Union of Employers would provide a basis for agreement.

The men have been complaining about safety standards at the jetties, but the general view is that their work-to-rule and overtime ban has more to do with a 25 per cent wage claim, and that the timing of the dispute was to take advantage of the present supply difficulties.

Petrol supplies had been stabilising after panic buying and hoarding in May and June. The Irish Tourist Board was attempting to salvage this year's season through promotions in London and the guarantee of supplies of petrol to tourists.

The dispute almost immediately produced a return of the petrol queues. There were predictions that should it last another week filling stations throughout the country would have to close.

Mexico oil record

MEXICO reached a record oil production of 1.609m barrels a day, the Pemex Corporation announced yesterday, Reuter reports from Mexico City. Mexico is expected to increase its daily production of crude oil to 1.8m barrels by the end of the year.

Joint search

CHINESE Vice-Premier Li Xiannian said yesterday that China will agree to a Japanese proposal that they should jointly develop undersea oil near the Senkaku Islands, AP reports from Tokyo. The islands are claimed by Japan, China and Taiwan. Mr. Li expressed a willingness to set aside the dispute while exploring for oil.

Luxembourg coalition

LUXEMBOURG Premier Designate M. Pierre Werner yesterday announced that his own Social Christians and the Liberals had agreed to form a coalition government for the next five years, Reuter reports from Luxembourg. M. Werner, whose party won 24 of the Parliament's 59 seats in last month's general elections, will be sworn in as Prime Minister today.

Pol Pot attack

VIETNAMESE-LED forces repulsed a fresh attempt by Khmer Rouge guerrillas loyal to ousted Kampuchean Premier Pol Pot to recapture the border town of Poipet, according to Thai officials, Reuter reports from Bangkok. Thailand had refused to admit Khmer Rouge men who tried to cross the border after the attack.

Giscard restates Pacific role

BY TERRY DODSWORTH IN PARIS

FRENCH PRESIDENT Valéry Giscard d'Estaing last night began a week-long tour of the country's Pacific territories, in which he is expected to clarify France's aid policy to the area.

The trip will also take in a visit to the French nuclear test site on the Mururoa Atoll in Polynesia, and brief stop-overs in Abu Dhabi and Singapore for official talks.

The president's visit to Abu Dhabi, where he will meet Sheik Zaid bin Sultan Al Nahayan, president of the United Arab Emirates, is seen as an important element in the vigorous diplomatic effort France is currently making in the Arab world. It follows only a week after M. Raymond Barre, the Prime Minister, returned from Iraq with an encouraging new commitment of oil supplies, and coincides with another senior ministerial visit to Saudi Arabia.

Abu Dhabi is France's third largest supplier of crude oil after Saudi Arabia and Iraq, selling the country some 10m tonnes a year.

The South Pacific tour begins in New Caledonia, where a recent election confirmed the region's wish to remain within the political framework of France's internally autonomous overseas territories.

In a speech due to be delivered tomorrow in Noumea, the capital of New Caledonia, the president is expected to underline France's commitment to allowing the region a free choice about its future.

But this will be combined with a promise of continued aid to help the country adapt its economy from its present over-dependence on nickel production, as long as it retains its links with France.

From New Caledonie, M. Giscard d'Estaing will fly on to Wallis, also in the western Pacific, for a brief three-hour visit, before moving on to French Polynesia. He will make further speeches there, stressing France's attachment to its Pacific territories. The French see the prospect of considerable future development through exploitation of seabed minerals.

The French President's tour of the Mururoa installations, used for underground nuclear testing since the halt of atmospheric explosions declared soon after M. Giscard's election in 1974, comes at a time when France is developing a new range of nuclear devices. These are to be fitted to its multiple warhead M-4 missiles for use in its nuclear submarines and land-based missiles. No blasts are scheduled during the President's trip.

£383m Italian trade deficit

BY RUPERT CORNWELL IN ROME

ITALY HAS reported a trade deficit of L709bn (£383m) for May, the second worst single monthly figure for more than three years. It compares with a surplus of L65bn in April.

According to figures published here by ISTAT, the national statistics institute, the country's cumulative deficit for the first five months of this year reached L1,357bn (£742m), exactly double the deficit in the same period of 1978.

The overall January-May returns tend to suggest that the blame lies less with a sharp rise in the oil deficit, as might be expected after the OPEC price increases this year, but with a deterioration in the balance of other items.

While the "oil" deficit has stayed almost constant at just over L3,000bn in the first five months, Italy's "non-oil" surplus has dropped more than L540bn to L1,817bn. This trend is not entirely surprising, since a growth rate for 1979 of between 4 and 5 per cent is expected, despite fears of a slow-down in the second half of this year.

The forecast was repeated yesterday by Sen Filippo Maria Pandolfi, the Treasury Minister, who also predicted another payments surplus in 1979—although below the 1978 record of \$8bn.

Rebel tribesmen lack co-ordination and leadership

Afghan regime maintains its hold

BY OUR FOREIGN STAFF

THE PRO-SOVIET regime in Afghanistan is still considered secure, despite an increase in rebel activity during the last few weeks which has meant that Kabul has lost control of more than half the country.

Western analysts believe that the ruthlessness and efficiency of Mr. Nur Mohammed Tarraki's Government is still a match for the Moslem tribesmen opposed to his left-wing reforms, who lack strategic coordination, centralised leadership and internal cohesion.

The prospect of a strategic embarrassment for the Soviet Union, if the Government were to fail, is offset by the belief that even a Government of rebel tribesmen would look to Moscow for support, as did the previous regime of President Daoud. This is despite the tacit support given to the rebels by neighbouring Pakistan, where about 110,000 tribesmen have taken refuge since the fighting began more than a year ago.

The number of active guerrilla fighters is estimated at between 3,000 and 5,000, armed mostly with captured Russian assault rifles or the old British 303 rifles traditionally used in the area. The tribesmen are now so audacious that even the main road to the border with Pakistan is unsafe for military vehicles. Yet many are only part-time fighters, still also tending their fields and minding their herds. Most of the fighting takes place after dark, when the rebels' control extends to the limits of the main towns.

So far Mr. Tarraki has been able to rely on the tough, well-organised ranks of his left-wing Khalq Party, which have held firm. The key elements in the armed forces—the tanks, the elite commando units and the air force—are also loyal. But casualties have thinned the ranks of the 110,000-strong army, as have desertions including those of company and even battalion-size units. Men are being drafted from colleges and *from amongst the* unemployed to make up strength. In one instance, convicts from Kabul's main prison were also enlisted.

Military assistance from Soviet advisers is described as being very close and active, and includes taking part directly in the fighting. The Soviet advisers usually wear Afghan army uniforms, a habit which they started when serving under the regime of President Daoud before it was overthrown in April 1978.

Kabul these days is described as still calm and relaxed, but few people venture out after dark, even well before the 11 pm curfew. Another problem facing the Government is foreign exchange. Inflows of foreign aid have been severely reduced because most of the projects have had to be halted.

Japan's UK mission fails to impress

● The much heralded Japanese trade mission to Britain earlier this year has left many UK industrialists disappointed. However, the more patient among them may find that some benefits will emerge in time. A Special Correspondent reports.

HOW MUCH did the import promotion mission despatched by Japan to the UK early this year really achieve? The answer, boiled down from the responses of half a dozen or so industries which were on the mission's visiting list, seems to be "wait and see."

Four months after the 100-odd businessmen who came to the UK in what was billed as Japan's largest overseas purchasing mission boarded their aircraft for Tokyo, what has emerged in the way of firm orders still looks distinctly unimpressive.

Wily British businessmen who are aware of the mysterious workings of the Japanese decision-making process are not put off, however. Several of them are still awaiting telex messages reading: "We have decided: please deliver tomorrow," or something to that effect.

Optimists about the eventual results of the mission point to the fact that its leader, Mr. Taiichi Matsuo, is no stranger to Britain or the mission business. He led a smaller version of the 1979 exercise in 1973 and subsequently presided over the British Market Council, an organisation established at the behest of the Ministry of International Trade and Industry to promote trade with the UK.

Mr. Matsuo is a former MITI official who has become president of Japan's fourth largest and, it is sometimes said, most aggressive trading company, Marubeni. He is not, in other words, the type of man who would be willing to act as a figurehead *in a venture which* had no prospects of success.

The success that has been achieved to date—£54m worth of orders signed during the mission's visit and announced just after its departure—may not offset the £740m trade gap (the 1978 figure for the UK's bilateral deficit with Japan) and could in any case include a certain amount of "window dressing," such as orders that would have been placed anyway. But not all the industries which were visited by Mr. Matsuo and his colleagues see things in that light. One which does not is the Yorkshire-based wool textile industry for which Japan is already a big market and could become considerably larger.

According to Mr. Geoffrey Richardson of the National Wool Textiles Corporation the Matsuo mission placed good orders for products which Japan does not normally buy from Britain. The total amount of the orders was not more than £500,000 but the corporation was sufficiently encouraged to decide to put an extra show at the British Export Marketing Centre in Tokyo, scheduled for September.

Wool textiles exports to Japan are currently worth around £50m a year, mainly in men's suiting, but the industry thinks there may be £5m to £6m worth of orders to aim at in the new areas uncovered by the Matsuo mission.

Another relatively favourable reaction (though not expressed in terms of millions of pounds worth of orders) comes from the electronic components *industry whose interest is not so* much in selling to Japan as in supplying Japanese factories in Britain, such as Sony and Matsushita, with their Welsh TV assembly operations.

Mr. William Barret of the Electronic Components Industries Federation says that his initial fear that too many UK based employees of Japanese companies had been included in mission disappeared when it was found that the Japanese buyers "worked hard and seriously."

The main effect of the mission's visit was that the Japanese and UK components makers and users now understand each other and that the British side may start learning from the Japanese. Mr. Barret says UK components suppliers have begun studying the Japanese "zero defect" concept as well as the need for the very close links between buyers and users that normally exist in Japanese industry.

Mr. Bob Scott of the Engineering Industries Association had some less appreciative comments to make about the mission. *He feels it was* largely a "political manifestation" with a distinct lack of clearly defined purchasing targets. What would be far more useful in Mr. Scott's view, would be to have carefully selected groups of invited Japanese buyers visit a "matched list" of UK engineering companies, or for more exhibitions to be staged at the British Export Marketing centre in Tokyo.

Two companies which expect no direct results but still felt the *exercise* was worthwhile were the Tube Investment Group and Hawker Siddeley International. For Hawker Siddeley, which made a presentation to the Japanese visitors but got no immediate business, the director responsible, Mr. Alan Moreton-Smith, said: "Selling capital equipment is not like selling woollies over the counter."

Nevertheless the company found the mission a very good means of reinforcing the contacts it has already begun to make with Japanese trading companies. Business, when it does materialise, is expected mainly to involve supplying equipment for Japanese contracts in third countries. Hawker Siddeley particularly has its eye on China where it thinks Japan may get the lion's share of big contracts.

Apart from its various purchasing divisions, the Matsuo mission included a small group looking for opportunities to invest in Britain. Although a high proportion of this group were bankers who were not in *a position* to make investment decisions on behalf of their clients, there was also a representative from Mitsubishi Electric which bought the Tandberg TV assembly factory in Scotland two weeks after the mission's return.

The Department of Industry takes the view that the Tandberg deal might not have been tied up nearly so smoothly and swiftly if the Matsuo mission had not come. It is hoped that Mitsubishi's purchase of the factory (at Haddington, east of Edinburgh) will secure 70 to 80 existing jobs and perhaps double that number in future.

What all this adds up to may well be a large portion of pious hopes and a rather small portion of solid business. British exports to Japan have, however, been growing faster in the past month or two than in the early months of the year. They were up by 56 per cent in May against a five-month year-to-year to gain 26 per cent.

Sharp increase in China trade

HONG KONG — China's foreign trade in the first six *months this year* totalled \$13.6bn (£5.9bn), up 43.2 per cent from the same period in 1978, according to Peking's *official Xinhua* news agency.

The agency said imports reached \$7.6bn, up 59.9 per cent, while exports stood at \$6.1bn, up 26.8 per cent.

Among the imports, machinery was up 130 per cent, steel and other metal products 83 per cent, chemical fertilizers 20 per cent and textiles 34 per cent. Imports of food, edible oil and sugar also registered increases.

The dispatch did not give a breakdown of exports.

Brij Khindaria adds from Geneva: China's foreign trade experienced a boom period in 1978, but the upsurge will be dampened in the medium-term because of the downward revision of many of China's performance targets.

An economic survey prepared by the UN Secretariat says that China has taken a policy decision to maintain high levels of grain imports—about 10m to 13m tons per year—for the next several years.

This compares with imports totalling 9m tons last year, and an average level of about 5m tons during the 1971-77 period.

The total value of imports rose by 50 per cent last year, while exports increased in value by 29 per cent.

While electric power and energy supplies continue to be bottlenecks constraining economic growth, coal output increased by 50m tons in 1978 for the second year running, reaching a total volume of 600m tons.

The steel industry demonstrated its full recovery from the 1976-77 slump by notching output figures that exceeded the 1975 peak by 20 per cent to reach 31m tons last year. But the rate of growth fell slightly from 14 per cent in 1977 to 12 per cent in 1978.

Agricultural output is estimated to have risen by 3 per cent last year, mainly because of the first substantial harvests since 1975.

Despite the *drought which* hit food production last autumn, the 1978 grain harvest reached a record 295m tons after having hovered at about 285m tons during the three previous years.

China's total exports to industrialised countries reached \$8.8bn in 1978, up from \$6.8bn in 1977. They were only \$2bn in 1971.

Russia boosts textile industry

BY RHYS DAVID

THE SOVIET UNION has embarked on a large scale expansion of its textile industry, with major purchases last year of new textile machinery, according to figures published by the International Textile Manufacturers Federation.

In spinning, where there are two main types of equipment—conventional spindles and the newer rotor systems — the USSR last year received delivery of 551,644 rotors, bringing the Soviet share of machines delivered in the five years to 1974-8 up to 47 per cent of the world total. The next biggest buyer was the U.S. with 7.6 per cent of total world sales followed by Italy with 4.2 per cent.

Soviet purchases last year alone amounted to one third of all rotors delivered over the past five years throughout the world, and accounted for 80 per cent of all last year's deliveries.

In weaving too the USSR has been a big purchaser, though by no means so dominant. In 1978 Soviet purchases of shuttleless looms (which with the less sophisticated shuttle looms form the two basic types) stood at 3,361, a total exceeded only by the U.S. which took delivery of 4,242.

Taking the past five years together, the USSR is in third place as a purchaser of shuttleless looms behind the U.S. (18,144) and Italy (9,380), with total Soviet deliveries reaching 8,378 or 9.3 per cent of world installations.

Rotor or open-end (OE) spinning equipment, the area where the USSR has concentrated its investment, is capable of producing high volumes of low medium quality yarns very economically, and for this reason it seems probable that output from Soviet plants is intended to supply an expanding domestically-orientated garment industry.

Finer quality yarns, such as are needed for more sophisticated products, can still only be produced on conventional spindles. OE machines are also able to use low grades of fibre such as are likely to be available from Soviet cotton plantations.

The ITMF figures show that in conventional spinning equipment the biggest markets for machinery over the past five years have been India, which accounted for 13 per cent of spindles purchased, followed by South Korea (11.8 per cent) and Brazil (7.5 per cent). The UK was the 18th biggest purchaser accounting for 1.3 per cent of shipments. In weaving, the biggest purchaser of shuttle looms was Japan followed by South Korea, Indonesia and the U.S.

In Europe (the USSR apart), Italy has been the main investor in both weaving and spinning equipment for the past five years, with Germany also investing heavily. In Asia, Japan was the leading investor in shuttle and shuttleless looms, and in rotor spinning, while in South America Brazil accounted for the bulk of investment in all types of equipment.

SHIPPING REPORT

Gulf VLCC rates almost double

BY IAN HARGREAVES, SHIPPING CORRESPONDENT

THE OIL TANKER market saw the kind of excitement last week which usually features in novels about shipping tycoons.

Within three days, the spot charter rate for very large crude carriers in the Gulf almost doubled, from worldscale 55 to almost worldscale 100, the best rate obtained by such vessels for nearly six years.

Such explosions in rates offer quick and large returns for owners skilful enough to have positioned their ships to take advantage of a brief shortage of vessels for immediate loading.

By the end of the week, the market was breathless as charterers held back business, awaiting the inevitable decline in rates. Not surprisingly, charterers showed no interest in concluding long-term deals at last week's rates.

Other shipping markets were dull by comparison, but indications of a poorer Soviet harvest than in 1978 are encouraging owners of dry cargo tonnage.

Relatively few ship sales were concluded last week, but as Baker Eggar Forrester notes, second-hand prices are now for many ship types coming close to the heavily subsidised prices available for new buildings.

Shipbuilders have seen a strong pick-up in inquiry as a result of these trends, but this is still far from producing the volume of orders needed to prevent further large-scale yard closures and redundancies in Europe.

World Economic Indicators

INDUSTRIAL PRODUCTION

	May '79	April '79	March '79	May '78	% change over previous year	Index base year
W. Germany	123.7	110.8	122.2	115.0	+ 7.6	1970=100
U.S.	152.1	150.2	152.2	137.1	+10.9	1967=100
	April '79	March '79	Feb. '79	April '78		
France	130.0	132.0	130.0	131.0	− 0.8	1970=100
Belgium	127.8	119.5	109.5	123.4	+ 3.6	1970=100
Japan	129.3	128.7	128.8	122.0	+ 6.0	1975=100
Italy	128.8	144.0	131.1	122.3	+ 5.3	1970=100
UK	115.0	112.5	110.7	111.1	+ 3.5	1975=100
	March '79	Feb. '79	Jan. '79	March '78		
Netherlands	119.0	118.0	117.0	119.0	0.0	1970=100

Costa Rica telephones

General Telephone and Electronics has been awarded a \$56.4m (£24m) contract to provide computerised telephone switching systems for Costa Rica's communications network, Reuter reports from Stamford. GTE said the contract will be implemented in four phases through 1985 and will provide, install and place in service stored program controlled equipment which switches telephone conversations between communities.

Impo-Expo returns to London

By Patricia Newby

NEARLY 50 developing countries are participating in the London Impo Expo 1979 which begins today with a week-long symposium on how to sell to the Common Market.

The symposium, to be attended by 200 delegates of developing countries, will be opened by Mr. Neil Marten, Minister for Foreign and Commonwealth Affairs and Minister for Overseas Development Administration.

A week's exhibition at the Wembley Conference Centre will be opened by Princess Alexandra on July 23. This will be followed up by three days of discussions on the results of the exhibition.

This is the second London Impo Expo organised by the UK Trade Agency for the Developing Countries (UKTA) a body set up by the Government to help the Third World sell its goods. The first exhibition, in 1976, resulted in more than £25m worth of business for the 42 nations participating.

Half the £300,000 cost of the project is being met by the EEC Technical assistance and 40 per cent of the funds are being provided by the Export Market Development Division of the Commonwealth Secretariat and the remaining 10 per cent is coming from the Overseas Development Administration.

Some 4,000 potential buyers from all EEC countries have been invited, and emphasis will be on manufactured and semi-manufactured goods from developing countries rather than traditional commodities exports. For example, India will demonstrate automatic electrical controls for refrigerators and air conditioning equipment, vehicle headlamp assemblies, sealed-beam units and hand cutting tools. Peru will show steel and copper cable and wire; Trinidad and Tobago electric blenders and Pakistan surgical instruments.

Alcoa in \$765m plan for Brazil

SAO PAULO — Alcoa and Hanna Mining, both of the U.S., *have* presented a \$765m nine-year investment plan to the Brazilian Government.

The investment, the first stage of what could be a multi-billion dollar commitment, would be made through the Companhia Mineira de Aluminio (Alcominas) of which Alcoa owns 6 per cent and Hanna Mining owns 32 per cent.

Mr. Alain J. P. Belda, who *will take* over from Mr. Robert Slagle as president of Alcominas on July 17 said the \$765m will cover the purchase of the Aluminio S.A. (ASA) company, and the construction of a 100,000-ton-per-year smelter plus a 125,000-ton-per-year factory of flat-rolled aluminium products.

ASA is a financially troubled Brazilian aluminium transforming company.

Alcominas now produces 210,000 tons per year of alumina and 90,000 tons per year of primary aluminium.

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Revenue from detected tax fraud doubled

BY DAVID FREUD

REVENUE FROM uncovered tax frauds doubled in the first full operating year of the "new approach" — the policy of investigating selected self-employed taxpayers in depth.

The figures are regarded by senior Inland Revenue officials as justification for the policy under which about 3 per cent of annual returns by self-employed under Schedule D are subjected to rigorous examination. The accounts selected are those considered most likely to disguise tax evasion.

According to a recent Parliamentary written answer by Mr. Peter Rees, Treasury Minister of State, in the year to October 31 the yield of tax, interest and penalties arising from detection of tax evasion was about £70m.

This compares with £37m in the previous 12-month period, during which the new approach was adopted in January, 1977. In the year to October 1976 the revenue yield was £23m.

Inland Revenue officials say that quite apart from the specific yield from detection of self-employed tax frauds, the new approach resulted in a sharp increase in level of profit declared in several sectors.

The Revenue handles the larger and more important cases of evasion through 10 inquiry branch offices employing about 120 staff.

Additionally, four special offices were set up in 1976 and 1977 in London, Edinburgh, Manchester and Birmingham to tackle evasion and avoidance, employing about 70 staff. Another special office, with about eight staff, opens in London next month.

Finally, another 70 staff members work in the board's investigation office in London handling cases of fraud, forgery and theft, including those relating to sub-contractors' tax exemption documents.

Stockbrokers forecast fall in interest rates

THE HIGH level of interest rates should be eased by early September, according to stockbrokers Wood, Mackenzie.

In its latest economic circular, the firm says that money supply pressure has come from the "extraordinary" surge in bank advances in the first six months of the year, which has led to straining of the corset system imposed on the banks.

However, with the end of the mini-boom, consumer and retail borrowing should slacken, while the liquidity of the corporate sector should benefit by £1bn as a result of the rise in VAT accruals.

Even without the banks' rationing advances, there should therefore be a significant slackening in the demand for funds after June.

This should be reflected in the banking figures collected through July and provide the authorities with sufficient evidence of money supply control to allow easing of interest rates.

A similar view is taken by stockbroker Sebag in its latest review, which says that by August-September the underlying increase of sterling bank lending should fall to about £250m-£300m per month.

According to the firm lower lending, improving balance of payments trends plus overseas inflows will put downward pressure on short-term interest rates, although the Government is unlikely to allow a Minimum Lending Rate decline before better money supply figures for August or September.

ABEL MORRALL NAME CHANGE

With effect from July 5, 1979, the name of Abel Morrall has been changed to Aero Needles Group.

Left steps up campaign to restrict leader

By Philip Rawstorne

THE LABOUR LEFT will this week continue its campaign to reduce the powers of the party leader and reinforce its own influence on future policy.

Labour's home policy committee, under Mr. Anthony Wedgwood Benn, will today consider a report prepared by the party's research department criticising the last election manifesto as "remarkably weak" in terms of party policy.

The report will provide further ammunition for the Left in its bid to take over the party's levers of power. As part of that campaign, Mr. Callaghan will on Wednesday be pressed to set up a special inquiry into the role of the Parliamentary Labour Party.

Labour MPs are to hold a second meeting on proposals put forward by Mr. Benn and Mr. Eric Heffer for restricting the party leader's power and patronage.

Mr. Benn set out his objectives in a long and carefully prepared attack on Saturday on the "personal rule" enjoyed by Labour leaders both in Government and opposition. In a lecture in Bristol, he said that the "breathtaking scale" of a Prime Minister's patronage and power exceeded that of a mediaeval monarch.

Wolff may buy Chart Services

By Our Commodities Editor

LONDON metal brokers, Rudolf Wolff, has reached agreement in principle to buy Eurocommodity Chart Services, a wholly-owned subsidiary of Eurocommodities, the company that has gone into voluntary liquidation with estimated losses of over £500,000.

The deal will be put to a creditors' meeting called by Eurocommodities for July 25, when the proposal to go into liquidation will be considered. It is believed the bulk of the company's losses were incurred in metals trading with a number of dealers.

Eurocommodity Chart Services operates as a separate entity, and Wolffs claim it will provide a new area of expertise in chart forecasting drawing on a computer databank.

World airlines plan to increase fares at Geneva meeting

BY LYNTON McLAIN

WORLD AIRLINES meet in Geneva tomorrow to debate plans for a rise in air fares from the autumn and British Airways is expected to be among the leaders calling for a substantial increase.

The rise, to be debated by the member-airlines of the International Air Transport Association, could be between 10 and 15 per cent. But this would not rule out a further rise in January if fuel shortages persist.

Aviation fuel now accounts for a quarter of airline operating costs compared with 9 per cent six years ago.

Air fares were last raised in April, but the latest meeting in Geneva was called as a matter of urgency after oil producers raised crude prices by an average of 15 per cent two weeks ago.

Many airlines have been forced to buy fuel on the expensive spot markets to maintain their services.

Trans World Airlines, which buys 10 per cent of its fuel on spot markets, said the cost was now a matter of "critical concern." TWA said a Boeing 707 flying from New York to London used 10,800 gallons of fuel. In 1973 this cost $1,436. Today contract fuel would cost $7,560 and over $11,000 on the spot market.

In international markets TWA has paid up to $1.35 a gallon for spot fuel, with most prices well over $1 a gallon compared with the 55 cents it paid in July for domestic contracted fuel and the 70 cents it paid overseas.

British Airways has also been hit severely. It operates ageing Trident aircraft in Europe. These use fuel less efficiently than more recent airliners and the corporation expects a total fuel bill of over £500m in this financial year.

The airline is expected to start replacing its Tridents with more fuel-efficient Boeing 737s next year. These will be joined by the fuel-efficient Boeing 757 in the early 1980s. But the latest round of oil price increases has partially cancelled some of the technical advances in efficiency possible through the use of the Rolls-Royce RB 211-535 engine, now being developed with £250m of UK Government aid.

The engine is expected to be up to 25 per cent more efficient in its use of fuel than the current generation of narrow-bodied airliners. But by the time it enters services, most of this advantage will have been eroded by the latest and future increases in fuel.

In the meantime, British Airways' foreign earnings have been depressed by the fall in the value of the U.S. dollar. To counter its rising fuel bill, which rose by £100m more than expected in the last financial year to £450m, the airline is certain to support moves in Geneva for an increase in fares of at least 15 per cent.

Laker will go to court over Skytrain losses

BY LYNTON McLAIN

SIR FREDDIE LAKER warned as his Skytrain service from London to New York resumed at the weekend that he was "determined to go to court" to regain the £7m in revenue his airline lost as a result of the U.S. order which grounded his DC-10s nearly a month ago.

He said he was angry about the U.S. Federal Aviation Authority's "ghastly error of judgment in keeping the aircraft grounded for so long." The aircraft were grounded after the Chicago DC-10 crash which killed 273 people.

Sir Feddie is chairman and managing director of Laker Airways, which owns six DC-10s and has another five on order. He said he thought the FAA was a "first-class candidate for legal action."

● Mr. Adam Thomson, chairman of British Caledonian Airways, which owns three DC-10s, said on Saturday he was delighted to get the aircraft back in the air.

"We do not think it was totally justified to ground the aircraft for such a long period; we have always believed it to be perfectly airworthy," he said.

● NEWS ANALYSIS—REGIONAL POLICY

Honourable record of aid for the less affluent

BY ANTHONY MORETON, REGIONAL AFFAIRS EDITOR

THE FIRST major change in regional aid for seven years will be announced this week when the Government unveils its new thinking on assistance for the regions. The last big change was brought in by the Heath government—and the Conservatives have a more than honourable record of looking after its less-affluent parts of the country.

Not only Mr. Edward Heath, but also politicians such as Lord Hailsham, when he was plain Quintin Hogg, have been prominent in this field. And, of course, there is Mr. Harold Macmillan, whose allegiance to Stockton and the North East is now part of the oracles.

Indeed, regional policy was actually started by the Conservatives (though they called themselves Nationalists in those days) with the passing of the Special Areas (Development and Improvement) Act in 1934 to alleviate the severe structural unemployment affecting the older industrial areas.

This was the era when Jarrow and hunger marches were on all the front pages, when Clydeside was called "red" and sent fiery MPs to Westminster like Jimmy Maxton. And a firebrand called Emanuel Shinwell was about to return to Parliament—for the third time—for the Durham mining constituency of Seaham. It was also a time when the Rhondda in South Wales was one continuous street of boarded shops.

Commissioners

As a consequence of the Act, two commissioners were appointed to promote economic development. One looked after central Scotland and the other the North East of England, West Cumberland and South Wales. Today, these areas are still among those most in need and all four have parts designated as special development areas, which attract the top rate of grants.

Initial policies concentrated on relief for the heavy unemployment. It was only later that any attempt was made to balance the distribution of industry, though the early trading estates which were set up soon after the '34 Act were a combination of both. By the outbreak of war, more than 12,000 people had found work in leased factories.

The real drive forward in regional development had to wait for the end of the war. The war itself merely masked the problems of what were then popularly called the distressed areas by providing full employment; it did nothing to solve the deep-seated causes of the decline of the heavy industries such as coal, steel, and shipbuilding and other labour-intensive sectors such as the railways.

The first steps towards such a regional policy came with the advent of Atlee's Labour Government in July, 1945. A Distribution of Industry Act was passed which covered most of the pre-war special areas but which was a lot more interventionist. As such it might be called the real father of subsequent legislation.

Under this Act the then Board of Trade was empowered to buy land, build factories, make loans and grants and generally spend money on clearing derelict sites.

Differential

While there was a degree of success, the older industrial areas continued to lag behind the prosperity of the rest of the country and this differential widened after the middle 'fifties when many of the shortages of the immediate post-war years disappeared.

Macmillan's "never had it so good" approach was true for large parts of the country as the 'fifties turned into the 'sixties—but not for much of Scotland, the North and South Wales. So in the dying days of Macmillan's administration Quintin Hogg, then Lord President of the Council, was sent on a fact-finding mission to the North East. It was a trip which the publicists loved as Hailsham sported a flat cap for his travels around Andy Capp country.

If the public face of government was flamboyant there were nevertheless important results. In October, 1963, the first minister specifically responsible for regional affairs was appointed and a year later growth points, which were offered special help, were designated.

Regional policy, as opposed to practical help for certain areas, got its biggest boost from the Wilson Labour Government. Out of the Department of Economic Affairs, came the division of England into eight economic regions, with their own planning councils. Scotland, Wales and Northern Ireland were treated as separate economic entities.

Intermediate

The Wilson years saw a large expansion of regional activity, with the introduction of special development areas, investment grants, the regional employment premium, and, eventually, intermediate areas.

All this was too much for Mr. Heath, who immediately changed policy on investment incentives, substituting tax allowances applicable to a firm anywhere in Britain for the grants.

Ironically, though, it was a Heath measure, the 1972 Industry Act, which paved the way for even more intervention. In an effort to reflate the economy steps were taken to offer mandatory assistance for the introduction of new plant, machinery and buildings and selective assistance was offered for job-creating and other schemes.

The Conservatives did not use these measures widely but Labour saw the opportunity and boosted them enormously. The amount paid out in regional development grants alone is now running well over £400m a year, probably five times the amount when the Tories left office in early 1974.

The problem now is that the areas have spawned, over the years, taking away the sharp edge of assistance. The Labour government is thought to have come to much the same conclusions as Sir Keith Joseph but probably felt unable to act because almost all the areas it would have had to prune had Labour MPs. So it has been left to Sir Keith to tidy up the situation.

Paintmakers expect prices to rise 32%

BY SUE CAMERON, CHEMICALS CORRESPONDENT

THE UK Paintmakers' Association expects industrial paints and coatings prices to rise by at least 32 per cent by the end of the year following the increases in oil-based raw material costs.

The Association said at the week-end that raw material costs had risen by up to 151 per cent during the 12 months ending in June this year. It said that over the past year the cost of toluol had increased 151 per cent; glycol ethers, 70 per cent; alkyd resins, 26 per cent; styrene monomer, 102 per cent; and phthalic anhydride, 81 per cent.

But it said that so far UK paintmakers — especially those on the industrial coatings side, which accounts for 45 per cent of domestic production—had "failed to keep pace with the escalation" in chemical feed-stock costs.

The paints and coatings industry had been "more gravely affected than most major chemical-consuming sectors by the oil crisis." About 80 per cent of its production costs were directly related to chemicals and, of this, 60 per cent were for products directly or indirectly based on oil.

"The real danger, however, is that petrochemical producers have been forced by the continuing crude oil crisis and the gasoline panic into yet another quantum jump in prices for the current quarter," the association said. It added that it expected third-quarter contract prices for naphtha — a vital oil-based petrochemical feed-stock — to rise to $50 up on the second quarter at around $300 a tonne. It forecast that benzene and styrene — two other raw materials — would rise by $95 and $70 to $595 a tonne and $950 a tonne respectively.

"With no end in sight to such rises on top of those already imposed, the industry knows it has an overwhelming case for urgent price increases, in particular on industrial coatings," the association said. Short-term forecasts were for a 15 per cent increase in prices by October with a further 15 per cent price rise by the end of the year.

Decorative paints had also been hit by increases in raw material costs, but because more water was used in their manufacture they had not been quite so badly affected as industrial coatings.

Attack on unions denied by Prior

BY PHILIP RAWSTORNE

THERE was no question of the Government mounting an attack on the basic rights of trade unionists, Mr. James Prior, Employment Secretary, said at the weekend.

"A strong and responsible trade union movement has a big part to play in our economic recovery," he told an Industrial Participation Conference in Cambridge.

The purpose of the Government's union reform proposals was to achieve a fair and balanced framework of legal rights and obligations. The rights and privileges of trade unions had to be exercised responsibly, he said.

"Our proposals do not create any new criminal offence and the traditional right to protest and demonstrate in public is unaffected. Society changes and the law must change with it—or become irrelevant.

"The law must establish the basic framework but there will always be a vital role for the voluntary observance of good practice.

"The Government is not looking for fights. After the events of last winter, that's the last thing anyone in his right mind could possibly want.

"The climate is right, and the time is right, for us all to get together and get things moving in the right direction. That way, everyone can benefit."

The prime responsibility for improving industrial relations would lie with employers and trade unions.

The challenge for both would be to develop voluntary participation arrangements that would enable all affected by company decisions to make their contribution.

Arbitration may satisfy technicians

By Our Labour Correspondent

THE POSSIBILITY of conciliation in the Civil Service technicians' dispute has been raised by the Institution of Professional Civil Servants.

Mr. Bill McCall, general secretary, said in a letter to Lord Soames, Lord President of the Council, that no real negotiations on the dispute were taking place. While the union did not believe that the dispute was an appropriate one to resolve by arbitration, Mr. McCall suggested that conciliation might be a way forward.

The union has not yet received a Government response to Mr. McCall's letter. No particular form of conciliation has been suggested although it would be reasonable to expect that the Advisory, Conciliation and Arbitration Service would offer its services to the two sides.

The dispute, which has disrupted work in a wide range of Government technical establishments, is over a claim for pay increases of between 35 and 47 per cent for 40,000 technicians and another 10,000 related staff. They have been offered between 15.5 and 24.1 per cent.

The missile frigate Cleopatra became one of the latest victims of the action when its trials after a major refit were halted by strike action by technicians at Devonport. IPCS leaders also claimed yesterday that the submarine Sceptre developed a steering fault when the Royal Navy tried to take it out of Plymouth without the support of union tug crews.

In a further extension of the action, the IPCS will from today be calling out 12 technicians who are in charge of the repair and maintenance of the Metropolitan Police car fleet.

Teachers to fight staff cuts

BY ALAN PIKE, LABOUR CORRESPONDENT

THE NATIONAL Union of Teachers executive is to urge "strong opposition and action" if Government spending cuts lead to reduce staffing levels in the new academic year.

"Our members are not going to cover up the danger to education arising from Government spending cuts," said Mr. Fred Jarvis, the general secretary.

Union leaders are concerned that local education authorities may begin to impose cuts by freezing appointments and recruitments when schools reopen after the summer holiday.

The executive decision means that local associations can obtain national sanction at short notice for action to resist cuts. NUT members in individual schools would be told not to take over the work of colleagues who had left and not been replaced.

Mr. Jarvis said the executive action would make clear to local authorities that the union's members, with full national backing, would fight hard to save schools from "these short-sighted and ill-judged cuts" which could only hurt children.

"Local authorities cannot expect to leave vacant posts unfilled without damaging the standards of education children will receive when they go back to school after the holidays," he said. Parents must understand that if posts were not filled, their children's education would suffer.

The union is to protest today to Mr. Mark Carlisle, the Education Secretary, against plans being considered by the Conservative-controlled London Borough of Bexley to unscramble Erith school, the only comprehensive in the borough.

Dr. Walter Roy, chairman of the NUT Education Committee, said that the school, an amalgamation of a grammar and a secondary modern, was achieving good results and there was no educational justification for dismantling it.

The union fears that if the reorganisation takes place it may be followed by similar action by other authorities.

Motor overdrives could save 10% more fuel

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

A BRITISH invention which dates back to 1947 could save the UK £2m a day in oil costs, it is claimed. The manufacturers say they could immediately achieve a 10 per cent improvement in fuel consumption of cars and light vans.

The device in question is overdrive equipment which cuts engine wear and noise, means lower engine revolutions and less pollution, according to GKN Laycock.

The company has just introduced an overdrive for automatic cars and is now attempting to revive interest in the device among all European manufacturers at a time when car-makers are committed to improving their vehicles performances.

Overdrive went out of favour when petrol was comparatively cheap in the UK and because of increasing use of automatic transmission and five-gear boxes.

GKN Laycock's overdrive is already fitted to the Triumph Dolomite, the MG Spitfire, the MGB and Volvo cars as well as a number of one-tonne vans.

But the company maintains overdrive could help many other manufacturers achieve fuel-savings with existing vehicles until the new generation of less-thirsty cars and light vans are launched in the mid-1980s.

Slow progress made in saving fuel

COMMON MARKET attempts to organise an energy conservation programme in the past five years have made "slow progress" admits a House of Lords committee report.

It was only in 1974 after the oil price rises by the major producing countries that energy conservation was adopted as an objective of Common Market policy, the report said.

It was clear, however, that a satisfactory mechanism for influencing events had yet to be found, the report said.

The committee spoke of the "low priority" given to the programme for the rational use of energy. It was unsatisfactory that a matter of such importance and urgency should be the responsibility of a service within a division of a directorate of the Common Market Commission.

Salvage men right tanker Tarpenbek

By Lisa Wood

SALVAGE WORKERS yesterday managed to right the capsized 990-ton German tanker Tarpenbek in Sandown Bay, Isle of Wight.

Two floating cranes turned the tanker over. A boom had been placed around the ship and when oil escaped from the engine room and a starboard tank, tugs and a light aircraft fitted with spraying equipment moved in to deal with it.

The pilot of the light aircraft had a lucky escape when the engine of his Piper Pawnee cut out and the plane ditched in shallow water. Mr. John Churchill, aged 40, of Worthing, escaped from his half-submerged plane with minor cuts and bruises.

Dutch salvage experts are pumping out the last 160 tons of heavy lubricating oil still in the tanker. Most of her original 1,600-ton cargo has already been pumped out.

When the operation is completed and checks have been made on any damage to the vessel, it is planned to take her to a Continental shipyard for repairs.

The Tarpenbek collided with another ship in thick fog off Selsey, Sussex, 24 days ago.

West Midlands drive to cut car commuting

FINANCIAL TIMES REPORTER

AN ENERGY campaign to persuade motorists to leave their cars at home is being launched this week by the West Midlands Passenger Transport Executive.

The theme is that if more than half a gallon of petrol is used in commuting, it is cheaper to use public transport. Advertisements are being placed on buses, posters and 100,000 leaflets will be given out.

The executive's integrated bus and rail services are being extended as fast as possible and the number of passengers being carried has doubled since 1974.

The PTE is applying for a 16.5 per cent increase in fares to stabilise subsidies. The bus deficit last year was £10.4m. An increase would limit the rise to an estimated £10.7m in the current financial year, when the total subsidy needed is expected to be £15.2m, about the same.

The PTE's cross-city rail service from Four Oaks to Longbridge, is used by 46,000 passengers daily and now a second line is being considered.

The redevelopment of the old Snow Hill station into offices and shops provides an opportunity for re-opening the tunnel with Moor Street station. If this is possible the second cross-city line would run from Leamington Spa to Stourbridge.

U.S. engineering plant for Belfast

BY OUR BELFAST CORRESPONDENT

A U.S. Engineering Company is expected shortly to announce that it will establish its first European manufacturing plant in Belfast, providing jobs for up to 300 skilled workers. The company is understood to be the LFE Corporation, based near Boston, with nine plants in America.

Mr. Giles Shaw, Ulster Under-Secretary, had talks last week with its senior management during an investment-seeking tour of the U.S.

A factory in Belfast would be adapted for making centrifugal and progressive cavity pumps. Mr. Shaw said there would be a significant spin-off for other Ulster engineering companies, particularly James Mackie and Sons, which has a foundry in Belfast.

CBI makes its commitment to equal opportunity

BY LISA WOOD

THE CONFEDERATION of British Industry yesterday formally stated its commitment to the principle of equal opportunity in employment and called for its members to take positive action in that field.

Sir John Methven, the confederation's director-general, says in a members' bulletin, "Employers had an important role to play in taking positive steps to ensure equality. To do otherwise would be socially and economically short-sighted as well as being unfair to the individuals concerned."

The CBI's full statement in the bulletin, which was approved by the CBI council, reaffirms the organisation's opposition to "all forms of discrimination on the grounds of sex, marital status, creed, colour, race, nationality, and ethnic or national origin."

To help companies to review their policies on equal opportunities, the CBI's Equal Rights Panel has prepared a guide to what might be included in an "equal opportunities" policy. However, this is not intended as a blueprint. The CBI believes that companies should decide for themselves the sort of policy that would best suit the needs of their own organisations.

The CBI suggests that aspects of employment which could be included in such a policy include the need for managers and supervisors to understand their personal responsibility for ensuring that an anti-discrimination policy was effective in such areas as recruitment, promotion, training and dismissal of employees.

Printers delay the Economist

PUBLICATION of the current issue of the Economist delayed because of a dispute at the company's printing works in Brentford, is expected to be completed today.

Members of the National Graphical Association stopped work last week over a manning dispute. They returned late on Friday afternoon and some copies were produced.

NUJ expulsions reach 390

THE NUMBER of National Union of Journalists members expelled from the union for activities during the nationwide provincial newspaper strike last winter has risen to 390 following the latest batch of 249 expulsions by the NUJ executive. Those expelled include Mr. Gerry Eames and Mr. Harold Pearson, who resigned as executive members.

Tory compromise on local authority clash

BY PAUL TAYLOR

THE GOVERNMENT will announce a carefully devised compromise solution to the competing demands of two rival Conservative-controlled local authority associations this week.

Under the proposals for selective local government reform aimed at reducing overlapping functions between county and district councils, the Government is likely to suggest that, with certain exceptions, responsibility for planning matters be transferred to the district councils.

The exceptions are expected to cover planning applications for mineral workings and national parks which will remain a county council responsibility.

On the other main area of controversy — transport and highway responsibilities — the Government is understood to favour maintaining the existing agency agreement between country and district councils. But is likely to suggest more consultation on these matters.

There has been conflict between the Associations of District and County Council; on these overlapping functions.

Following a meeting between Ministers and the associations earlier this week both sides refused to comment on the discussions before a statement is issued.

The Tory plan is designed to avoid the effects of more wide-ranging proposals suggested by the Labour Government during its last weeks in office. These proposals would have involved handing back a range of powers, including education and social services, to the larger district councils.

Mr. Michael Heseltine, Environment Secretary, hopes that the compromise proposals, which are likely to be included in a local government Bill in the autumn, will minimise the conflict between the associations while reducing costs and duplication of staff functions between the two tiers of local government.

Oxfam income rises by 26% to £9.7m

BY PAUL TAYLOR

OXFAM, the UK-based overseas charity, increased its income by 26 per cent to £9.7m in 1978-79 and its disposable income, after allowing for costs, increased by £1.75m to £8m.

Sir Geoffrey Wilson, Oxfam chairman, told the charity's annual meeting in Oxford on Saturday that the growth in income, coupled with a reduction in fund-raising and administrative costs from 18.5p to 17p in the pound, was "a very real achievement."

However, Sir Geoffrey warned that in an increasingly insecure world the charity will be asked more frequently to become involved with sensitive issues.

Oxfam's 575 shops continue to be the charity's main source of income showing a real growth, after allowing for inflation at 10 per cent, of 15 per cent over 1977-78.

Expenses during the year rose by £232,000 resulting in the improved ratio between administration and disposable income.

The pattern of allocations remained similar to 1977/78 with health projects receiving 21 per cent, agriculture projects 20 per cent, welfare projects 7 per cent, social development projects 41 per cent and the remaining 11 per cent devoted to emergencies.

Sir Geoffrey said 1978/79 had been marked by "a growing refugee problem. In Africa alone he suggested there were now 4m refugees and he warned that the problems were still growing, boosted by victims of the Nicaraguan civil war and the Vietnamese expulsions.

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Crtr. Manchester (061247 3760)	12	½-year	1,000	2-3
Grtr. Manchester (061247 3760)	12½	½-year	1,000	4-5
Reading (0734 592325)	14	maturity	1,000	6
Redbridge (01-478 3020)	11¾	½-year	200	4-5
Redbridge (01-478 3020)	12¼	½-year	200	6-7
Wrekin (0952 505051)	12½	annual	1,000	4-5

CONTRACTS AND TENDERS

Technical News

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● FINISHING

Advanced methods of surface treatment

EXTENSIVE blast preparation and surface finishing facilities have been set up in Slough, Berks, by Hankoe Stove Enamelling Co. Convinced that manufacturers are becoming increasingly aware of the need to blast-etch and paint in controlled atmospheric conditions tall the processes will be undertaken in rapid succession), Hankoe has spent over £100,000 on re-equipment of its works at 523 Yeovil Road on the Slough Trading Estate (0753 22779).

In addition to the latest blasting equipment to treat all types of ferrous component, Hankoe plans to devote a considerable amount of its expertise to the fine-finishing of non-ferrous parts—aluminium, stainless steel, copper and brass.

A range of 20 paint finishes are to be offered and included will be an acrylic texture coating which is not only extremely durable but has the added advantage of hiding minor defects in the treated component. A special section has been set up to apply 3M Nextel, a paint finish which gives the appearance of suede.

Hankoe says it will be able to deal with complicated "one-off" jobs equally as well as long runs. Two infra-red ovens, equipped with automatic conveyors, will be able to stove up to 300 items an hour. A collection and delivery service is being made available.

Paint spray control

IT IS claimed that all types of spray finishing can be carried out in the Beaver range of waterwash spray booths just introduced by Mascott Engineering of Ashford, Kent (0233 20401).

A range of eight standard booths is offered in nominal widths from 1.5 metres to 6 metres tall 2.15 metres high). Water held in the 10 swg mild steel tank (capacity 2,046 litres for the 6 metres booth) is pumped to the top of the booth where it falls through a specially designed system of weirs and troughs to create a four-stage scrubber unit.

A continuous screen of water falling over the 3 mm fibreglass washdown screen is devised to ensure that the paintladen air is extracted at low level in the gap between the bottom of the screen and the water tank. The air then passes up through three water screens in the back of the unit before being discharged to atmosphere as virtually clean air.

No mains make-up water is required, says Mascott, because the water in the tank is recycled continuously and in most applications topping up with a gallon of fresh water for each day's operation is adequate.

● INSTRUMENTS

Dips into sewer

WATER LEVELS in sewers, drains or any other accessible pipes or receptacles can be monitored to two per cent using a robust portable flow recorder made by Portacel.

Easily installed in most standard manholes, "Purtadip" makes use of a weighted sensor probe which is raised and lowered automatically on ten metres of cable. When the probe touches the surface a return path to the instrument is formed which causes the motor drive to retract the probe from the surface. The dipping process is then repeated every 30 seconds and the level reached each time is recorded on waxed paper within the instrument.

The circular recording paper runs for either one day or seven, and the 30 second dipping interval means that no misleading readings are produced due to passing solids.

To give the necessary durability the instrument is housed in a watertight case made from Beetle DMC (glass-fibre reinforced dough moulding compound) supplied by British Industrial Plastics.

More from Portacel, Cannon Lane, Tonbridge, Kent TV9 1PP (0732 364411).

● BROADCASTING

Infra-red effects on the eye

MORE AND more TV sets are being fitted with infra-red remote control; moreover new applications of this transmission medium are being developed. Investigations have been carried out by Siemens as to whether this invisible radiation can harm the eye's retina.

Serious eye damage caused by electric arcs or laser beams has also attracted suspicion to infra-red light. There have been reports that the ir light from commercially available led's can have a deleterious effect if the light rays enter the eye under adverse circumstances.

To ensure safety, Siemens' investigations were performed on the basis of visual conditions that rarely occur in practice. The light rays from the diode were collected by the lens of the eye and the entire radiation energy directed on to the retina. In addition, the light beam was proportioned so that the available energy was focused on the smallest possible area of the retina. In this case, the retina image was only four times larger than the emitting chip area. Furthermore, constraint was applied to ensure that the temperature at the illuminated point on the retina did not rise by more than 10 degrees C—a value that must not be exceeded if a health hazard is to be avoided.

Under these unfavourable conditions, there was a practically linear relationship between chip dimensions and visually critical maximum power.

With standard chips having an edge length of 0.4mm, this power is slightly over 100mW. With edges 2mm long almost 500mW can be tolerated. The highest-powered ir diodes of the 0.4mm class, with a maximum power of 20mW, lie well below the limit for this size of diode.

Investigations are based on the assumption that the light-emitting chip is square and flat and radiates hemispherically in accordance with Lambert's cosine law. The semiconductor material used for the ir diodes is gallium arsenide (GaAs). It is emphasised that the results of the investigation on no account apply to laser diodes. These elements are not Lambert emission sources and emit considerably more coherent light.

Siemens House, Windmill Road, Sunbury-on-Thames, Middx, TW16 7HS. 09327 85691.

● PRINTING

Graphics products from U.S.

TWO TYPESETTERS and a roll-fed platemaker made in the U.S. by Visual Graphics Corporation have been introduced to Britain by the company's U.K. subsidiary.

Typositor 4000 is a daylight operating display phototypesetter designed for rapid production of headlines and similar material in sizes from 24 to 96 point. A different kind of master called Microfont is employed—a small rectangle of film measuring about 4½ x 6½ inches containing an 18 point alphabet. The company says that the selection system used allows operators to select characters in random sequence at speeds up to three times faster than two-inch roll fount machines.

Also launched is a low-cost unit that delivers high quality display-sized type quickly and economically without darkroom or plumbing. It has a visual spacing system that allows the user to see exactly what is being set, character by character. All the type is set same size from inexpensive film founts on to 2 x 12 inch paper and processed in normal room light for immediate use.

The platemaker from VGC is an automatic horizontal roll-fed camera type that produces high quality Rapilith offset masters from line or pre-screened originals in a single step.

Called the Platemaker 200, the unit will accept originals up to 24 x 36 inches and deliver offset masters up to 14½ x 18½ inches at the rate of three plates/min.

Incorporated into the machine are auto-focus, a digital plate length indicator, digital timer and reduction / enlargement ability between 45 and 200 per cent.

More from Visual Graphics Company (UK), 8 Paul Street, London EC2A 4JH (01-247 7378).

● SAFETY

Detects any movement

JOINING THE considerable number of microwave detectors on the market is a unit from the U.S. called Midex which the agents, Monitel of Colchester, say is simple enough to be installed by the property owner or manager.

A beam of microwave energy at low level is sent out rather like a light beam from a torch and is adjustable to have, at a range of 50 ft, a maximum vertical dimension of 10 ft and a maximum width of 20 ft. Doppler shift principles are used (the analogy is the changing pitch of a train whistle as it passes an observer) so that any motion within the field of the beam gives a *slightly changed* frequency in the reflected energy which is picked up by the equipment and processed. An in-built sweep oscillator and amplifier will then power external loudspeakers to raise the alarm.

Should the villain cut the mains supply, a four-hour stand-by battery ensures continuing protection. Timing circuits permit entry and exit of the staff, and if desired additional window and door sensors can be independently connected.

With the unit, which costs £152 without loudspeakers or additional sensors, comes a very good installation brochure which should prevent mounting of the unit so as to detect, for example, passing cars outside or flapping curtains.

It also takes the trouble to point out that unless some understanding is reached with adjacent *premises* owners (particularly in residential applications) the alarm sound may well be ignored.

More from Monitel, Berechurch Road, Colchester, CO2 7QH (0206 48221).

● HEATING

Burns low grade fuel

FIRST UNIT of its type, a fluidised bed burner capable of handling lignite or brown coal and extracting virtually all of its—rather low—calorific value of 5,000 BTU/lb has been exported from Britain to Hungary.

Energy Equipment has sold this first unit to Vepex, central Hungarian buying organisation, for the Transelektro coach and lorry building group.

It will be coupled with a conventional boiler to provide a gain in efficiency of about 6 per cent over orthodox firing systems. A conventional chain grate is being replaced.

Energy Equipment, Olney Industrial Estate, Yardley Road, Olney, Bucks. 0234 712333.

● DATA PROCESSING

Complex equipment design

MILLENNIUM Professional and Technical Services is providing a design and prototyping service to Chubb Integrated Systems during the development of a new cash dispenser system.

The distributed microprocessor techniques used in it will give greatly increased *flexibility*, in addition to improved customer facilities, compared to earlier models, and considerable interest has already been shown by both UK and overseas clients.

First module to be completed is the display and keyboard sub-system. Providing the all-important communication between the cash dispenser system and the customer, the unit displays messages on a customer screen in one of four languages, and accepts inputs from the customer keyboard. In addition, it controls a second, independent screen and keyboard in the rear of the equipment for use by bank staff.

Multi-lingual message library, with a capacity of 16,000 characters, provies facilities for nested messages, character translation for special characters used in certain languages, and insertion of literal data from other sources.

Character timing can be modified under program control to give different inter-character spacing when required, and a graphics mode allows the display of complex characters, such as Chinese, using data from the system control processor.

Keyboard characters are normally echoed on the CRT, but the echo is automatically suppressed when secure information is being keyed.

Based on the Motorola MC6802 microprocessor, the design *adapts many* of the specialised functions of the M6845 CRT Controller to give the two-screen control and the complex display layout facilities with the minimum of additional logic, to ensure production economy.

Millenium, 82A, Town Centre, Hatfield, Herts AL10 0JW. Hatfield 67121.

Will aid show visitors

ORGANISER OF the International Business Show to be held at the National Exhibition Centre from October 23 to November 1 next, Business Equipment Trade Association, has engaged Duport Computer Services to provide a computerised information service.

Largest of its kind so far held in the UK, the show will cover 33,250 square metres of net stand space in the five halls, with over 400 exhibitors.

Duport's Factfinder, which will be available free for the use of visitors, will answer a host of inquiries from product information and exhibition facilities to travel and entertainment. Certain information will also be available in French and German.

Factfinder equipment will have 14 computer terminals located on seven information stands strategically placed throughout the exhibition halls at the NEC. The terminals will be linked by telephone lines to the Duport computer centre some 25 miles away at Tipton.

Main characteristics are ease of operation, fast response, greater depth of information—more than can be obtained from the average catalogue, a printing facility for those requiring *hard copy and type listing* of products enabling the visitor to identify an area of interest and plan an economic route round the exhibition.

Solves a Braille problem

BRAILLE display and editing terminals by Micronex solve problems not typically encountered with the more familiar word processing.

Braille display and editing calls for a full-size display format in dot form which simulates the embossed Braille page, and an ability automatically to accommodate the complex conventions used in text editing and formatting based upon the six-dot Braille cell.

Complementing the computerised systems for Braille translation and production currently in use at the RNIB, the unit satisfies the requirement for a small stand-alone system capable of scanning Braille pages produced by voluntary transcribers using a Perkins Braille writer, so converting the text into machine-readable form for editing and reproduction. Once captured by the scanning process, the 29 line x 40 character text page is presented as a 20 ins (50 *cm*) raster scan graphics display for editing utilising the Braille equivalent of word-processing.

Micronex, Harford Square, Chew Magna, Bristol. 027589 300.

● COMPONENTS

Smooth ride up or down

AN advanced design of passenger lift controller has been developed by Hammond and Champness.

Heart of the unit is a thyristor controlled regulator which converts the lift drive motor—a double wound squirrel-cage motor coupled to a worm reduction gear—into an infinitely variable speed unit, with braking being obtained from the low speed winding.

Design is such that acceleration and deceleration patterns are determined by the regulator and take into account the car's payload condition. Cruising speed, levelling and inspection speeds are also controlled by the regulator and a tachogenerator, integrated into the circuitry, ensures that motor speed is governed at all times, says the company which has its headquarters at 159, St. John Street, London, EC1 (01-253 4818).

Educational solar cell

SPECIFICALLY produced for educational use, a Ferranti silicon solar cell is 3 ins in diameter and is capable of producing 0.9A at 0.5V under good sunlight conditions. Physical protection is provided by a tough moulded case and by a Fresnel lens which also acts as a light collector. Power take-off is from metal pins on the rear of the case. Accidental short-circuiting of the output will not damage the cell, and any number of cells can be arranged in series/parallel combinations to provide increased output values.

In addition to providing an educational aid for schools, colleges and universities it can provide the DIY enthusiast with a power source for operating functional models and electro/mechanical devices.

Further from Ferranti Electronics, Fields New Road, Chadderton, Oldham, Lancs OL9 8NP. 061-624 0515.

Building and Civil Engineering

Taylor Woodrow's £8.2m

TWO CONTRACTS with a combined value of £8.2m have been won by Taylor Woodrow. The bigger worth £7.6m and awarded by the Oxford Regional Health Authority, is for phase one of the Milton Keynes District General Hospital. Taylor Woodrow's contract is in two parts—initial collaboration and liaison with the client's design team followed by a management contract. Construction is programmed to start in October 1980. Completion is scheduled for May 1983.

The second contract, worth £590,000 is for the construction of a container repair depot at Nursling, Southampton, Hants, and is for Taylor Woodrow Industrial Estates. Architects are D. S. Tucker and Partners, mechanical engineers John Hemsley Associates, quantity surveyors, Gleeds. Workshop, office accommodation and a lorry park are included in this scheme which is now under way and programmed for completion in March 1980.

In the north, Taylor Woodrow has been awarded by Sir Robert McAlpine Project Management a contract worth £1.4m for civil engineering works associated with a new Post Office parcels office at Stourton, Leeds, West Yorkshire. Architects are Abbey and Hanson Rowe and Partners of Huddersfield, consultants (structural) Ove Arup and Partners of Sheffield and quantity surveyors Gleeds of Leeds.

The project is now under way and completion is planned early in 1980.

Work for Laing in Leicester

SINGLE STOREY battery production building is to be built at Market Harborough, Leics., under a contract worth about £1m awarded to the Midlands region of John Laing Construction by Tungstone Batteries. The building will be at Lathkill Street where work will start at the end of this month. Completion is due within a year to provide a working area of about 25,000 square feet.

Alterations at Debenhams store at Bull Street, Birmingham, are worth £711,000, and the contract involves installing a new goods lift in the seven-storey building, additional escalators between the basement and fourth floor, removing existing goods lift and reinstating shopping areas and creating new shopping and storage areas by removing some interior walls.

Fairclough wins £7.6m

WORK IN Yorkshire, Teesside and County Durham has been awarded to Fairclough Building totalling £7.6m.

Biggest contract is worth £2.6m and is for a new William Morrison supermarket with adjoining bowls hall at Darlington. Bowls hall is a joint venture for Morrison and local borough council and, when completed next spring, will provide an all-year-round flat indoor bowling green for the Darlington Bowls Club.

Two projects in Washington, Co. Durham, are a Barclays Bank cash centre (value £460,000) and a £275,000 extension to the Makro self-service wholesale warehouse.

At Gateshead, company will build a warehouse, silo tower and office block under a £750,000 contract for Rank Hovis McDougall; and refurbish a factory under a £800,000 contract from English Industrial Estates Corporation.

In West Yorkshire a £560,000 contract is for a single-storey extension to stock-holding facilities at D and F Steels, Leeds.

Leeds City Council has awarded a £1.3m contract for 102 council homes, and Middlesbrough Borough Council a £1m job for the modernisation of more than 100 homes at Acklam and Whinney Banks.

House repair project

LONDON BOROUGH of Hounslow has placed a contract valued at over £1.8m with Tilbury Construction for a 36-week first-year programme involving external repair works to inter-war council houses.

Properties are on 19 estates in the borough, and work includes replacement of canopies, rebuilding gable walls, rebuilding and repointing chimney stacks, renewing windows, repairs to roofs, etc. Some underpinning is also called for.

Orders roll in to Bos Kalis

NACAP BV, the pipeline subsidiary of the Royal Bos Kalis Westminster Group of Holland say it has received orders during the past few weeks valued at £25m.

The largest is for the completion of a gas pipeline in Algeria. Nacap has also received orders in Holland for placing fire screens and laying pipelines involving six water crossings and a waste water pipe.

Group member Oosterwijk BV of Rotterdam has received a £2m order for earth moving works in Holland.

Osiris-Cesco, the group's site investigation and survey company has received orders worth over £1m for hydrographic and soil investigations in various countries.

British group members Rock Fall Company of Glasgow, Westminster Offshore and Land and Marine Construction both of Bromborough, Merseyside, have obtained orders worth over £5m. Land and Marine has an order to build 197 houses in Liverpool while Rock Fall has been awarded a contract to prove coal deposits in mountainous and difficult terrain in Scotland.

Seepage stopped by a sealant grout

WATER SEEPAGE, which has affected the Prudential Building, Cambridge, over the past few years, has been stopped by a new sealing and grouting system, Waterguard, marketed by geotechnical specialists, Ground Engineering.

Initially the building's basement suffered from minor seepage which was overcome. It recurred later and increased during the 1976 drought.

The owners attempted to divert the water flow along existing drains. This solution proved troublesome because the high mineral content of the water caused recurring blockages.

The first step by Ground Engineering was to find where the water was leaking into the building. Then, while the basement continued to be used by the occupiers, holes were drilled through the retaining walls at regular intervals and the Waterguard system, which uses a silicate-based grout, was pressure-pumped through the wall to form an impervious skin between the wall and the water-soaked ground. The same process was used to provide a waterproof blanket underneath the floor.

Thus unlike most other sealing techniques which attempt to seal the actual cracks, Waterguard forms a waterproof, chemical and pressure-resistant barrier outside the porous wall. It is also compatible with traditional construction materials and is safe to handle.

Ground Engineering, 14 Regent Street, London SW1Y 4PJ. 01-930 0320.

New bridges for Bath and Cardiff

CONTRACTS IN South Wales and the south west valued at over £1.8m have been awarded to Davies, Middleton and Davies (Joseph Cartwright Group).

The largest, Tyndall Street viaduct in Cardiff, involves the construction of a three span prestressed precast concrete road bridge over the railway bearing on large diameter bored pile foundations.

In addition to approach embankments with concrete cable subway and crib retaining walls, 120 metres of dual carriageway and 240 metres of single carriageway is to be constructed.

Preliminary work on the contract which is for the South Glamorgan County Council and valued at over £1.1m is now under way.

Work on another bridge over the River Avon in Bath which will link the A4 and A36 roads has also just begun. The bridge is to have steel plate girders with a composite in situ reinforced concrete deck slab of 40 metres span. Abutments and wing wall will be supported on steel "H" piled foundations. The contract, which includes the construction of 285 metres of road is valued at £575,000 and is for Avon County Council.

Under a contract with Wessex Water Authority worth £130,000 the company is to carry out improvement works to Ladden Brook near Iron Acton. Construction of the pumping station and channel works will start soon.

£4m to Manston

CONSTRUCTION contracts worth more than £4m have been won by Manston (Contractors Industrial) for work to be undertaken in Leeds, Sheffield, Bradford, Wigan and Nottingham.

Just under £1m, is the supermarket and petrol station project for William Morrison at Wigan. Other work here includes warehouses, offices and external works, the largest being for a 100,000 square feet unit for Leigh Estates which will be let at Benyon Park, Lowfields Road, near Leeds United football ground.

Developments also include a scheme for City Square Securities, Nottingham and for Glyben, Leeds.

Warehousing and offices are being built for T. W. and H. Clarke at Bradford and two more schemes are underway for Percy Bilton at Tinsley adjoining the M1. A further scheme is under construction at Castle Donnington next to the East Midlands Airport.

Design and building of a major extension to the premises of J. Rivlin, electrical wholesaler, is being undertaken.

Also received by the company is a contract for British Road Services at Scunthorpe.

Control of water quality

YORKSHIRE Water Authority has awarded a contract worth about £1.4m to William E. Farrer (a member of the Moss Engineering Group) for water pollution control mechanical and electrical plant.

This is part of a scheme to moderise and refurbish the biological filters at the Authority's pollution control works at Esholt which serve Bradford and surrounding areas.

Comprising 35 rectangular units installed in an area of 21 hectares, the existing biological filters contain 140 water-wheel-driven travelling distributors which were installed in the early 1930s. It is intended to replace the equipment with the same number of electrically driven distributors with modern control equipment.

£2m awards won by B. B. Kirk

B. B. KIRK (Constructions) a member of the Charles Hill of Bristol Group, has been awarded contracts totalling over £2m.

They include work for the North West Water Authority for extensions to Colne Sewage Works costing £966,000 extensions to Ilkeston Sewage Treatment Works for Severn Trent Water Authority value £733,000 and two small sewerage schemes for the Craven District Council and the Ribble Valley Council totalling £150,000.

Construction is soon to commence on two factories for the English Industrial Estates in Lancashire at Earby and Haslingden. Value of this work is £275,000.

Estimates hours of daylight

JUST PUBLISHED is a Building Research Establishment report, Availability of Daylight, which is intended to help designers make more accurate estimates of the number of hours for which artificial lighting is needed in buildings.

It is post free in the UK at £4.70 from Distribution Unit, BRE, Garston, Watford.

Foundation service by GKN

INCREASING USE in the building industry of new, lighter materials with increased strength has necessitated the use of lower capacity piles in foundation schemes, says GKN Keller Foundations of Ryton, Coventry, in launching its new mini-pile system.

This allows piling to be carried out on previously inaccessible sites, and also on sites which have severely restricted headroom.

Able to work with a minimum headroom of 4.5 metres, the system caters for piles of 160 mm to 305 mm diameter, offering load characteristics from between 150kN to 350kN. The mini rigs are said to function in very confined spaces—the smallest can be manoeuvred through gaps as narrow as two metres.

Sound will give tide levels

REMOTE measurement of tidal ranges by ultrasonics can be carried out with the Type 1856 tide level developed by Strainstall.

For port operators, the offshore construction industry and researchers, continuous indication of the tide level is made readily available at any suitable point remote from the instrument's location; while lack of moving parts means that an absolute minimum of maintenance can be combined with a high degree of reliability and accuracy.

Heart of the system is a transducer mounted at the top end of an 8-inch-diameter pvc stilling well. The latter has a damping inlet at the bottom end to eliminate the effect of wave motion, and is easily mounted in any suitable vertical position on the structure under study. A simple plug-in lead carries the transducer signal to a readout unit which may be located up to 50 metres away.

Should data be needed further away from the measurement point, the Strainstall type 1620 large display unit can be hooked in. This is visible at a range of 100 metres, effectively allowing data to be read clearly 150 metres from the transducer location.

Type 1856 can cope with a tidal range of 6 metres. Where ranges are greater than this, two or more units can be used to back each other up. Digital readout is standard, with temperature compensation provided to minimise drift. Accuracy is claimed at plus or minus 3cm within a temperature range of 0-20 degrees C.

Strainstall, Harelco House, Denmark Road, Cowes, I.O.W. 0938 295111.

Materials for plastics window frames

PUTTING ITS money behind the forecast some years ago that rigid pvc window frames promise to be the most significant development for pvc consumption in the next decade, Vinatex of Havant, Hampshire, is now producing the dry blend and granulated compound used for the production of profile for the Thermoframe system, presently available from H.I.S. (Aluminium), Thorpe Way, Banbury, Oxfordshire (0295 54266).

Claiming to be one of the fastest growing manufacturers of plastic raw materials in the UK, Vinatex is associated with the British Steel Corporation, National Coal Board and Norway's major industrial organisation, Norsk Hydro a.s.

Extrusion production and marketing of the components for the system is a joint venture between W. H. Smith and Sons (which is responsible for extrusion development) and H.I.S. (Aluminium).

IN BRIEF

● John Mowlem has received a London Borough of Sutton contract, worth £700,000, to carry out structural repairs to Chaucer House, a 16-year-old tower block, and modernise its 95 flats.

● Chef and Brewer part of Watney Mann has awarded a £240,000 contract to John Willmott Group for the conversion of the Wellington public house in Turnpike Lane, Wood Green, London N22, into a restaurant.

● Borough of Colwyn has awarded a contract worth over £860,000 to Mears Contractors for the construction of 67 dwellings on Fron Farm Estate, Colwyn Bay.

● Lesser has received its third contract — worth £315,000 — from Swallow Hotels, for the design and construction of an extension to the Seaburn Hotel, Sunderland.

● Deacon Contractors will build the new 1,800 square metre two-storey store at London Road, East Grinstead, Sussex, for Johnson Group Cleaners Properties. The £300,000 project includes extensive site preparation demolition of existing buildings and the excavation and removal of an estimated 3,500 cubic metres of soil.

● Agent Plant Hire continues its £2m expansion programme on its Leeds and Nottingham Simwain depots with a further £1m expenditure on new plant for its Crayford, Kent, depot.

● Frankipile has increased its range of pile types with the introduction of the Franki drilled pile, for use where it is important for the piles to be installed without vibration and with the minimum of noise. This new equipment consists of a continuous hollow stem flight augar which is screwed into the ground by the hydraulic rotary head of the machine. Very little soil is removed, temporary lining tubes are not required and, on completion of the boring operation, the pile is formed by controlled pumping of concrete through the hollow stem of the auger as it is withdrawn from the ground.

A cry for help from small U.S. innovators

BY CHRISTOPHER LORENZ

ONE OF THE most intensely-studied documents in Whitehall and Westminster over the last few weeks has been a report from the Massachusetts Institute of Technology which shows that small firms have generated the vast majority of new jobs in the United States during the past decade.

The MIT report strongly supports Sir Keith Joseph's argument that there is more chance of creating new employment in the UK by encouraging the start-up and development of new businesses than by shoring up old and inefficient industries. Hence Whitehall's preoccupation with the report (which was discussed by John Elliott on the general feature pages on June 30).

Sir Keith and his advisers should be forgiven for concluding from the MIT study that small business as a whole is now booming in the U.S. It is not. How can it be when small firms have become virtually unable to raise money on the public securities markets since 1972, whereas until just three years earlier they were raising over $1bn a year? Between 1969 and 1975 the number of such issues fell from 548 to just four.

This is only part of a very sad story. As if these financial problems were not enough, U.S. small business has also suffered since 1960 from a massive proliferation of regulatory and legislative requirements, dwarfing the problems about which entrepreneurs in Britain have been complaining so vociferously.

None of this is to argue that the MIT report is inaccurate, merely that U.S. small business is no longer booming to the extent it did through the 1950s and 1960s, or the way it might again if some of the many disincentives of the past decade could be removed.

Indeed, there is some evidence in the MIT study itself of a decline in the job-creating role of small firms relative to larger ones between 1969 and 1976 (the years covered by the report), but this trend is masked in many places by MIT's aggregation of data for the whole period.

The sharp decline in public equity funding for small firms over the last 10 years was described as nothing short of "catastrophic" by a recent report to the Department of Commerce by a group of leading businessmen, most of them without a personal axe to grind since they work for giant corporations.

The reason for their concern is that a large body of research now shows that small firms have a far greater tendency than large ones not only to create new jobs, but to produce significant technical innovations—which in turn help increase productivity throughout the economy.

Yet it is exactly these high-risk, so-called "technology-based" small firms which seem to be suffering most from the current lack of capital. This shortage is not only in public equity markets, say the businessmen, but also among specialist venture capital institutions and individuals' investments—both of which were crucial sources of finance for the now famous technology-based firms of California's Silicon Valley and Boston's Route 128 before them.

In the light of all this, it may be no coincidence that the deterioration of the environment for small, innovative firms in the U.S. since 1970 has been followed, after only a few years, by growing concern among many economic experts that much of the new employment recently created in the U.S.—to the envy of every European country suffering from high unemployment—has actually been created at the expense of higher productivity, and may therefore prove to the detriment of future competitiveness and employment.

Much of the evidence about the worsening of the U.S. environment for small, innovative companies was reported on this page on May 14, as part of an article explaining what American businessmen were telling the Government during the course of President Carter's domestic policy review on industrial innovation.

Now the argument has been taken a stage further by a last-minute submission to the policy review by the select group of small businessmen who were invited to take part in the consultation process.

Their joint report expresses the intensity of their concern in extraordinarily violent language (at one stage it accuses certain government procedures of "chewing the small innovative business to bits".

Yet, in spite of the obviously self-interested nature of the report, it provides convincing chapter and verse to support the small businessmen's case. Whether Washington will feel able to accept some of their many policy recommendations may be questionable, but it can no longer be in any doubt that the plight of the small, innovative entrepreneur is bad, and getting worse. Though worse in degree, many of the problems are similar to those in character of other countries, including the UK.

After reminding Washington that running a small business is always a struggle, on all fronts, the report outlines five problem areas where Federal action could help:

● **Capital availability:** The report complains that federal policies on taxation, pension funds and securities "have virtually eliminated" all forms of start-up and expansion capital from small, innovative business ventures. In particular, it claims that the anti-fraud rules of the Securities and Exchange Commission effectively preclude from capital markets small enterprises which do not have a proven flow of profits from mature products.

A broader complaint is that changes in tax policies over the past ten years have given favourable treatment to investments by individuals in pension funds, property, oil and gas drilling, and agriculture, whereas innovation receives no special treatment.

The entrepreneurs are particularly concerned about the pension fund legislation, which has chanoelled the savings of high-income earners into tax-sheltered institutional investment pools that are precluded by law from investing in small, innovative businesses. "In our opinion, this . . . has caused a major disaster for innovation," the report complains.

● **Regulation:** The present system of applying the increasing body of Government regulations equally to large and small firms discriminates against small business, says the report. Listing some of the many new Government agencies which have been established in the last decade, and those whose jurisdiction has been extended, it argues that "the small guy is overwhelmed by the law-making, rule-making, and enforcement processes of regulation." They combine to drain the innovators most precious assets, time and energy, it complains.

● **Federal funding for research and development:** This has become highly concentrated in a few large companies, universities and federal laboratories, the report complains. "The most innovative sector of the American economy, small science and technology-based enterprises, are virtually excluded from effective participation in federally-funded applied research."

● **Federal procurement of goods and services:** The procedures involved stultify innovation, says the report, yet if small firms were given greater participation in this market, the government would benefit from better products and services, and lower costs.

● **Patents:** The real value of patents has weakened considerably in recent years, the group complains. A large proportion are later invalidated by legal action, "and the cost of defending such suits is prohibitive for a small firm. A return to a strong patent system is essential for a rebirth in innovation."

Running through all these specific complaints is a single theme: that the government and legislature fails to understand the essential differences between how small and large firms are managed, and therefore fails to appreciate that generalised policies towards industry and commerce tend to work to the advantage of large firms, but to harm the small.

This applies to every one of the five specific problem areas, according to the report: "In order to obtain capital to meet expansion needs; to avoid high (property) taxes; to obtain federal regulatory permits; to sell a new product to the government; or to defend its patents, it is frequently necessary for the small innovative firm to sell out to a larger firm with greater resources.

"When this occurs," the report continues, "the research and development budgets are often soon cut, and the innovative entrepreneurs leave the firm. A creative, independent organisation is changed into a static, dependent one."

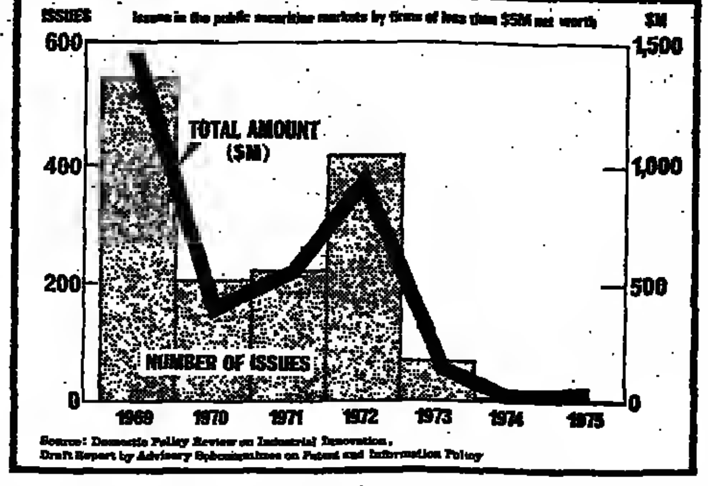
The entrepreneurs' analysis of their problems is followed in the report by a battery of recommendations. They are far too numerous to itemise, but they include the following:

● **Capital availability:** Large amounts of risk capital will again flow into small innovative enterprises if federal tax laws are changed, to put small business innovation on a par with large corporations, and on a par with other investment alternatives for individual investors. To support its case for many financial obstacles to be removed, the report points out that many of them were unintentional in the first place, raised as part of much more general measures. Among the specific proposals are a new class of equity security for new innovative businesses, and a series of tax incentives to both small companies and individual investors.

● **Regulation:** There is a series of recommendations for exemptions or mitigations for small innovative firms.

The report concludes with a clarion call worthy of the Declaration of Independence: "With the removal of the disincentives that are now imposed upon small innovative businesses, we are confident that the amazing resourcefulness of American innovators will again emerge and result in material and social growth for our country."

A CAPITAL-RAISING 'CATASTROPHE'



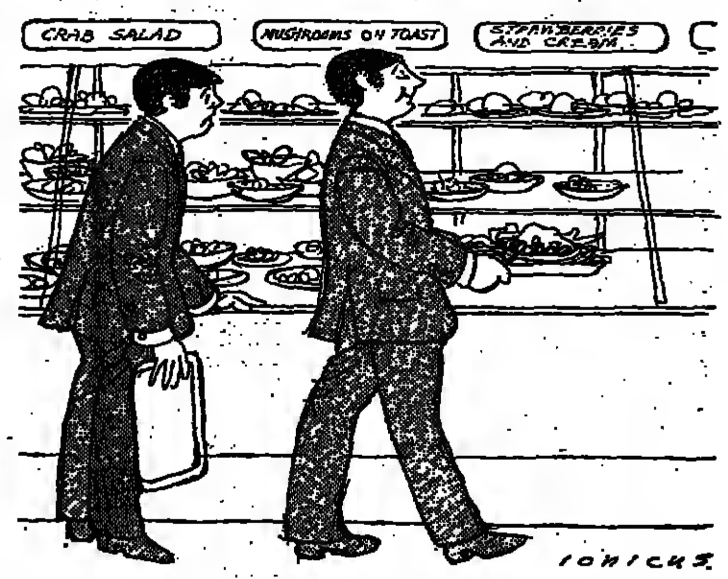
EXECUTIVE HEALTH

BY DR. DAVID CARRICK

Season of skin discontent

A PARTICULARLY despairing moment in the average doctor's day comes when a patient displays a rash; and during the past few weeks there have been many despairing moments.

Unless the rash is accompanied by other evident signs and symptoms, when the combination safely provides a diagnosis such as rubella, or scarlatina etc., much delving into minds and books may be required before an intelligent guess can be made. For, apart from external heralds of some internal conflict, the skin is a veritable battlefield in which are fought strange akirmishes, the main contenders being unknown, although sometimes the results are given charming names such as *pityriasis rosea, lichen plonus, molluscum contagiosum* and so on; names coined by those long-dead physicians who, after gazing at them, christened them descriptively to give an excuse for exotic or dangerous treatments.



One man's delicacy can be another man's allergy

Of the rashes seen in a season that passes for summer in Britain, many more are of an allergic nature than at other times in the year. This is due to factors such as the ready availability of certain soft fruits.

A majority of allergic reactions display themselves in skin eruptions, most of which are fairly easy to recognise. Tiresome and aggravating as these may be, they are seldom of alarming severity. *A few*, however, depending upon the hypersensitivity of the sufferer and the type of allergen involved, are very serious and, on rare occasions, may prove fatal if adequate medical attention is not obtained quickly. Stings from bees and wasps in a sensitised person, enter this category.

Why do they occur and what is the mechanism? Both are difficult questions; but, basically, and for some unknown reason, some people's hodies have a remarkable dislike for certain common foods, medicines, etc. which have no deleterious effect on the great majority of the human race. Thus, Mr. A. can eat strawberries or crab or mushrooms year aftet year without a whisper of trouble. And, should he fall ill and require penicillin or aome other medicament, if it does not cure him it will not make bim worse.

Poor Mr. B., however, has to deny himself these delicacies because, after the *second* time be indulges, he develops a rash and is mildly or moderately ill. Furthermore, he may not he able to benefit from some of the most usefnl anti-bacterial drugs for the very same reason. And, if the poor man happens to be undergoing some unrelated emotional stress, any reaction may he exaggerated.

As to the mechanisms involved in allergic reactions, very roughly they are as follows: the individual eats, or inhales or is injected with, some substance to which his body has an idiosyncratic objection. Nothing unpleasant takes place on the first occasion because, although his organism regards the said substance as a foreign invader which should be fought, there are no antibodies to do battle with the antigens. But antibodiea are manufactured and lie in wait for ever, if need be, to take up the cudgels sbould a second invasion occur.

If this happens, then the antibodies are mobilised and hattle is joined (very quickly with fooda and inhaled matter but usually not before eight to ten days with drugs). The fight causes tissue damage and leads to the release of bistamine from cells in the skin and from deeper tissues, with resultant dllatation of small blood-vessels (and thus a fall in blood pressure) and causes "nettle-rash" or other types of eruption (wbich usually itcb grievously) and, in some cases, constriction of hronchioles. The result is a very unhappy—even severely ill—itching, swollen patient wbo has done no wrong to anyone, but has merely proved that the merry meat of most men is this poor person's puzzling poison.

Management abstracts

These summaries are condensed from the journals of obstracts published by Anbar Management Publications. Readers wishing to consult original texts should write to PO Box 23, Wembley HA9 8DJ.

The Goal-Setting and Appraisal Processes in MBO, M. L. McConkie in The Academy of Management Review (USA), Vol. 4 No. 1: p. 9 (12 pages, tables).

Analyses literature on management objectives to describe and compare how authorities view the goal-setting and performance appraisal processes, and how far they agree with eacb other; from the analysis offers general guidelines for the conduct of these core aspects of ao MBO programme.

Why So Many Small Businesses Flop. P. L. Burr and R. J. Heckmann in Across The Board (US), Feb. 79: p. 40 (3 pages).

Explores, with a case example, reasons for small business failure, and summarises them as lack of management ability, unawarenes: of cash-flow needs, excessive long-term investment too soon, and—in some cases—growing too fast; from these, identifies ingredients for success.

LOMBARD

Wages or jobs—the real choice

BY SAMUEL BRITTAN

THE "Phillips curve," which asserted that there was a stable tradeoff between money wage increases and jobs, stirred up a great many emotions in its time. In the U.S. it was regarded as a doctrine for radicals, implying that higher levels of employment could be obtained if only policymakers would tolerate a little more inflation. In the UK it was regarded as a conservative doctrine stating that inflation could be overcome at the expense of just a little more unemployment.

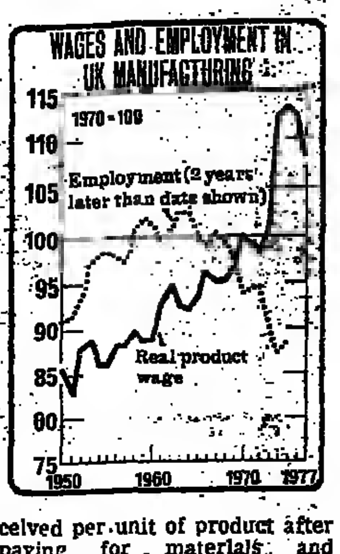
On either interpretation the Phillips curve is pretty well dead. The idea of a stable long run relationship between *money wages* and jobs could not survive the past decade of stagflation when both money wages and unemployment soared together. It would now be widely accepted that there is little long run relationship either way. There may be a temporary tradeoff; but it may go in either direction and is inherently unstable.

Causation

But it is important not to throw out the baby with the bathwater. There is a relation between wages and jobs, but it is real wages and not money wages that matter; and the line of causation runs not from unemployment to wages, but from wages to *employment*. The higher are real wages, everything else being equal, the lower is employment. Thus, if real wages are too high, workers will price themselves out of jobs.

Although the general principle is easy to state, there are many difficulties in observing its operation. There are *many* influences apart from real wages on employment; and the time lags involved are not known. The summer issue of the Midland Bank Review, contains a pioneering attempt to measure the relation.

The real wages that matter for employment are wages in *terms of the product produced*. If real wages rise in industry because, for instance, prices of imported commodities fall, this will hardly hit employment. For this reason the Midland Bank Review has constructed an index of labour costs to the employers in manufacturing, adding in National Insurance and superannuation as well as wages. This series is then divided by the prices that the employers received per unit of product after paying for materials and bought-in services—in other words, the price per unit of value added.



But one further correction is made. A unit of labour changes its value over the years, as even in the British economy there has been some trend increase in output per worker. The cost of labour figures are therefore divided by a productivity index to obtain the "real product wage" shown in the chart. The Midland Bank conjecture is that changes in this wage affect employment after a lag of two years.

It will be seen that the explosive rise in real product wages in the late 1960s and mid-1970s was associated with a dramatic drop in employment. The fall in real product wages in 1975-77 has been associated with a modest employment recovery.

There remains the question of why the much gentler rise in product wages in the 1950s and earlier 1960s did not hit the employment in the way the later increases did. My own suggestion, slightly different from the Midland author's, is that capital stock increased so quickly in relation to the labour supply that the market-clearing real wage was pulled upwards.

In the present situation why do not employers prevent real product wages from rising excessively, by raising final prices? In the UK they are inhibited from doing this by the high exchange rate. But this can hardly explain why real wages have risen so fast as to produce unemployment in the Western world as a whole—if this is what has happened. We still lack a general theory of employment.

Counting the cost of the death penalty

WHEN THE House of Commons on Thursday debates the restoration of the death penalty the arguments are likely to focus on the events of the past 14 years since abolition.

The growth in the absolute number of murders, the incidence of death from terrorism, the problems facing the prison service with an accumulated population of life-sentence prisoners totalling about 1,500 and the political and social climate that surrounds the issue today as opposed to the era of the abolitionist movement that gained strength since World War II—all these are central issues that will occupy the speeches of MPs.

The only recurrent argument that may sustain the restorationists is the supposed deterrent effect of capital punishment. Simplistically, it is asserted that since abolition the murder rate has increased, and that this is in part at least due to the absence of that most powerful deterrent to serious crime, the threat of the loss of the offender's own life.

There is, in fact, no evidence to support the view that the death penalty uniquely deters potential murderers — that is, deters them more effectively than the present alternative penalty, the mandatory sentence of life imprisonment. The alternative of a long time in prison for the murderers who would be the prime candidates for hanging were that penalty available, means something not less than 15 years. Such a penalty need be no less of a threat. Were death sentences, or other extremely unpleasant penalties, awarded for shop-lifting or dangerous driving, for example, they could probably be shown to be very effective.

The nature of punishment for crime is not an irrelevant consideration; but the really important question is the relationship between legal standards and subjective assessments of unpleasantness. At what point does severity of punishment start to take effect, even when the chances of detection are low? Or put conversely, what level of punishment is sufficient to deter when chances of detection are high, as they are in murder cases?

Where certainty of detection is high, there is some evidence that severity of penalty has an independent deterrent effect. The problem is that the point at which this happens varies with the nature of the offence and the offender's *motivation*. But the existence of the most severe penalty may actually reduce the certainty of its imposition. Juries are less likely to convict if they do not feel the death penalty ought to be imposed.

The main cause of misunderstanding about the efficacy of deterrent measures is the failure to appreciate that not everyone is responsive in like fashion to the same deterrent. Certain people — those lacking a sense of the consequences of their own actions, prone to impulsive rather than reflective action, with neurotic difficulties, whose attitudes to authority are inappropriate, not to say seriously unbalanced — are relatively immune to threats of punishment by the courts.

Chronic offenders are all too obviously undeterred by what has already happened to them or by the prospects of the punishments to come. The persistent robber who on one occasion kills, or the politically motivated terrorist, are least likely to be affected by the threat of any punishment.

Fairly inexperienced or first offenders may be more amenable to threats of the more severe penalties as deterrent measures, but they are almost invariably the candidates for sympathy, or even mercy. The parent who kills his or her mongol child, or the husband who kills his ailing wife, or the wife who kills the brutal husband are not the archetypes for the imposition of the death penalty.

Terrorism prompted the last Commons' debate on the issue in 1975. On that occasion the majority against a return of the death penalty for such killings was in three figures.

The experience of the past few years in Northern Ireland is particularly relevant. The number of deaths due to civil disturbances has dropped dramatically following the abolition of the death penalty in 1973. This is due almost entirely to the activities of the security forces and of the terrorists.

The restorationist might argue that the death rate would have been even lower had capital punishment been available as an additional instrument for the control of terrorism. If no one can positively gainsay that unproved argument, there is a severe practical consideration that militates against the return of the death penalty.

Ever since 1973 the trial of terrorists has been before a single judge. Part of the price of establishing the Diplock courts and taking away the right of jury trial was to remove the risk of hanging an innocent man. Were the death penalty to be restored in Northern Ireland, the demand for trial by jury would be overwhelming.

And it is relevant to note that the introduction of majority verdicts in jury trials in England after 1967 was made more palatable by the absence then of the death penalty. Any return to that penalty would presumably have to be accompanied by a provision for *unanimous* verdicts in murder cases. This would present an untidy aspect of the criminal law.

There is *also* the question whether nowadays, with much younger jurors brought up in a society that did not prescribe the ultimate sanction for murder, they would so readily accept the consequences of bringing in guilty verdicts, and would incline to acquittals. The attitude of judges, too, cannot be overlooked. Nearly 90 per cent of the High Court judges are post-1965 appointees.

While every judge would loyally perform his judicial duty in passing the sentence prescribed by law, there would be a degree of unhappiness among a majority of the judges at being a party to a practice that, for reasons of humanity and decency, had been dispensed with in our civilised criminal justice system.

If the judiciary as a whole would not welcome the return of the death penalty, likewise the prison *service would* not respond willingly to the task it would have to perform. The ugly business of taking a man to the scaffold is not a feature of a service that has propagated the view over recent years that prisons are for humane containment of the prisoners sent there.

Destruction of only a handful of human lives sits uneasily with a service that has prided itself on increasing professionalism. A new generation of prison governors and prison chaplains, not to mention a high proportion of prison officers, feel that the abolition of the death penalty 14 years ago was one of the few brighter aspects of a prison system that has been constantly in a state of crisis.

Even if the vote on Thursday is to be in favour of restoration of the death penalty—and all the predictions are that there will be a small majority for not returning to it—there would still be the further hurdle of legislation to reintroduce the penalty into the law. Almost all the advocates of a return accept that there would need to be a distinction between heinous murder for which the murderer would be liable to the death *penalty* and other murder cases that would be subject to the lesser penalty of life imprisonment.

But the experience of the Homicide Act 1957, that sought to make just such distinctions, was not a happy one. That experience led Lord Parker, the last Lord Chief Justice, to become an, albeit unenthusiastic, abolitionist. As the Royal Commission on Capital Punishment in 1953 concluded, the object of a quest for distinguishing between degrees of murder is chimerical and had to be abandoned.

THE WEEK IN THE COURTS

BY JUSTINIAN

Buttress looks sound

RACING

BY DOMINIC WIGAN

THIS AFTERNOON at Ayr, Buttress sets out on the second leg of a three-race St. Leger preparation which so nearly paid off with Le Moss a year ago.

The Warren Place colt proved a worthy winner of last season's Tennent Trophy, holding off Sea Pigeon by a neck following a head success in the Queen's Vase the previous month.

Today Buttress joins the fray for the Tennent Caledonian Breweries race with a three-length victory under 5 lbs more than *Le Moss* in that same Royal Ascot event behind him.

However, the Queen's three-year-old today meets Sea Pigeon on 3 lbs worse than weight-for-age terms and clearly has a stiffer task against the Easterby nine-year-old on that scale compared with Le Moss who was taking on the veteran on 11 lbs better terms.

There are four other runners in today's line-up: Rathdowney, Majestic Maharaj, Palm Island and Man Alive. But it is difficult to see the finish not developing into a straight fight between the remarkable Sea Pigeon and the classic pretender.

There is now little doubt that this year's second season performers are above-average and although Brian Taylor's claim that "apart from Troy there is no three-year-old in the country who could beat Buttress" may be a little sweeping, the colt should win here.

This chestnut son of Busted landed the Queen's Vase with ease. Third into the home straight at Ascot the West Ilsley colt, a son of that high-class 10-furlong mare, Albany, was sent for home a furlong from the finish by Carson. Lengthening his stride impressively he quickly asserted overwhelming superiority over Olympus whom he was meeting on 8 lbs worse than weight for age terms.

If, as was the case with Busted and several of his offspring Buttress is only now, in the second half of his three-year-old season, beginning to show his best, there is no doubt that the St. Leger target is far from out of reach. I expect the Queen's colt to put himself firmly in that classic picture with another comfortable victory.

AYR

2.30—Bird Reserve
3.00—Tolstoy
3.30—Buttress***
4.00—Avikdheer*
4.30—Henham Lodge**
5.00—Lana's Secret

TV/Radio

BBC 1

† Indicates programme in black and white

6.40-7.55 am Open University (Ultra high frequency only). 11.25 Cricket: First Test: England v India. 1.30 pm Trumpton. 1.45 News. 2.10 Cricket: First Test. 4.18 Regional News for England (except London). 4.20 Play School (as BBC2 11.00 am). 4.45 Jigsaw. 5.10 Big John Little John. 5.35 Captain Pugwash.
5.40 News.
5.55 Nationwide (London and South-East only).
6.20 Nationwide.
6.55 Ask The Family.
7.20 The Dukes of Hazzard.
8.10 Panorama.
9.00 News.
9.25 Royal International Horse Show.
10.45 Dame Edna Everage, her Agony and Ecstasy.
11.20 The Devil's Music.
11.55 Weather/Regional News.

All Regions as BBC1 except at the following times:—

Scotland — 9.50 am Magic Roundabout. 9.55 Jackanory. 10.10 Don and Pete. 10.15 Hong Kong Phooey. 10.35-10.55 Take Hart. 5.55-6.20 pm Reporting Scotland. 11.55 News and Weather for Scotland.

Wales—1.30-1.45 pm Pili Pala. 5.55-6.20 pm Wales Today. 6.55-7.20 Heddiw. 11.55 News and Weather for Wales.

Northern Ireland—4.18-4.20 pm Northern Ireland News. 5.55-6.20 pm Scene Around Six. 11.55 News and Weather for Northern Ireland.

England—5.55-6.20 pm Look East (Norwich); Look North (Leeds, Manchester, Newcastle); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton); Spotlight South West (Plymouth).

BBC 2

6.40-7.55 am Open University.
11.00 Play School.
1.30 pm Cricket: First Test.
6.30 Open University.
6.55 †Pick of the Philpott File.
7.45 Mid-Evening News including sub-titles.
7.55 For Valour.
8.10 The Waltons.
9.00 Barbara Fairchild Sings Country.
9.25 Inside Story.
10.20 Verse, Worse and Baby Grand.
10.50 Cricket: First Test (highlights).
11.20 Return Call to Brass Tacks.
11.50 Late News.
11.55 Heute Direkt (News in German).

LONDON

9.30 am Beyond the Moon. 10.00 The Open Air. 10.30 Cartoon Time. 10.40 The Coral World. 11.30 The Building of The Tower of London. 12.00 Jamie and the Magic Torch. 12.10 pm Rainbow. 12.30 Emmerdale Farm. 1.00 News, plus FT Index. 1.20 Thames News. 1.30 All About Toddlers. 2.00 Rumpole of the Bailey. 3.00 Monday Matinee: "Mrs. Sundance." 4.20 Clapperboard. 4.45 Why Can't I Go Home? 5.15 Survival.
5.45 News.
6.00 Thames at 6.
6.35 Crossroads.
7.00 Oh Boy!
7.30 Coronation Street.
8.00 Spooner's Patch.
8.30 World in Action.
9.00 Spearhead.
10.00 News.
10.30 Monday Star Movie: "Woman Times Seven," starring Shirley McLaine.
12.25 am Close: Personal choice by actor George Baker.

All IBA Regions as London except at the following times:

ANGLIA

ATV

BORDER

CHANNEL

GRAMPIAN

GRANADA

HTV

SCOTTISH

SOUTHERN

TYNE TEES

ULSTER

WESTWARD

YORKSHIRE

RADIO 1

RADIO 2

RADIO 4

RADIO 3

BBC Radio London

London Broadcasting

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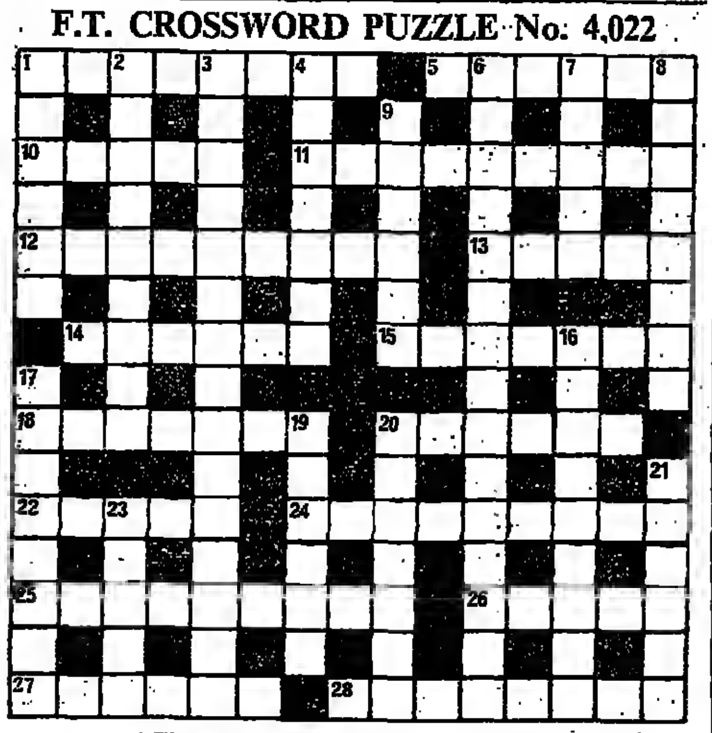
F.T. CROSSWORD PUZZLE No. 4,022



ACROSS

1 English order finds entrance in Scotland (8)
5 Leave without resource—it's just a yarn (6)
10 Oriental gets like a Scot (5)
11 Included in the register though evidently not upright (2, 3, 4)
12 Hither was repairs when tide is in (4, 5)
13 A place to eat in Germany (5)
14 Eruptive wine-bowl (6)
16 Custom includes thanks for an abode (7)
18 Writes for Time initially in islands, west or east (7)
20 Presides with the cleaners about one (6)
22 Let it turn to a mark of distinction (5)
24 What pleases the golfer may lead up to a stately home (4, 5)
25 Complex form of aolic rite (9)
26 A political party has one excuse for failure (5)
27 Fashionable endeavour about to finish (6)
28 Wherein quatorze juillet fails (8)

DOWN

1 Famous Head gets by with everyone inside (6)
2 Heath includes a fitter set in action (9)
3 Blown away on the screen (4, 3, 3, 4)
4 One foot is enough for this racehorse (7)
6 Two great races—one with sex discrimination (3, 5, 3, 4)
7 A sign that is found in Roman art (5)
8 Set off for appointment about the collage (8)
9 Sailor in southern church needs a stiffener (6)
15 "His teeth I've enacted shall all be extracted by—amateurs" (Mikado) (9)
17 Region where Diana is over-rigorous (8)
19 Ruler seen last month in the sick-bay (6)
20 Formerly in the Diplomatic Corps, the oriental prepares to yield (7)
21 Business makes me start a row (6)
23 He follows the bird for a share (5)

The solution of last Saturday's prize puzzle will be published with names of winners next Saturday.

Theatre Upstairs

Marie and Bruce

by MICHAEL COVENEY

Wallace Shawn is an American actor and playwright whose *A Thought in Three Parts* at the ICA in 1977 provoked uproar in the Press and questions in Parliament. The play was frank rather than obscene — which may mean only that I was not upset by it. But it was, above all, about sexuality, a topic surprisingly ignored by the contemporary theatre. We get sex all right, but not much intelligent and personal talk about it.

In *Marie and Bruce*, Mr. Shawn examines the dead wood of a New York relationship like some wry beachcomber on a familiarly barren strand. Bruce is in bed and on the receiving end of Marie's devastating abuse. His typewriter has been thrown out. The play proceeds as a series of sideways looks at the same problem through contrasting frames. Not only are we impressed by the deftness and beauty of Mr. Shawn's writing, but also by the technique in its construction. Marie addresses us more often than Bruce, but both have revealing soliloquies where the temperature of the prose is deliberately heightened: Marie's set piece is full of descriptive sensuality, of flowers, heat, hornets and the nuzzling of a friendly dog; Bruce's turn tells of inviting nipples in an alien bar and the appeal of an unknown woman, as seen from a hotel bedroom.

In the middle of these private dream worlds, we have the arid reality, a spartan no-go area brilliantly realised in Petar Hartwall's design with antiseptic white walls, scrubbed floorboards and minimal furniture. Les Waters, the director, has done a fine job of bouncing the language around, so that you actualy do feel for a change in the theatre that you are listening to something well written. There is a lot of faecal imagery in Marie's abuse. Bruce takes all that on the chin, but is compelled to action near the end when a reconciliation dinner is punctuated by a neighbouring diner's graphic account of a bowel disorder. "Action" in Bruce's book, I should add, means a faint gesture of disapproval, a resigned scowl.

The dinner follows a party, where the recriminations and solo confessions have continued unabated. Other guests flit hilariously across the stage, like mobile cartoons flapping at such party-time topics as illiteracy, poverty and paranoia in the office. Stephanie Fayerman and Philip Donaghy are superb as the couple, she full of contained aggression and well-phrased venom, he a ruffled picture of slack-jawed imperturbability. In a thin year for new plays, this is one I have enjoyed most so far.

Philip Donaghy and Stephanie Fayerman

Berliner Theatertreffen

Women, women, women

by RONALD HOLLOWAY

Perhaps it was only a coincidence, but all the productions in this year's Berliner Theatertreffen, the annual round-up of the season's "most significant" productions, dealt with women: three versions of Sophocles' *Antigone* (in Friedrich Hölderlin's translation) from Frankfurt, Bremen, and the Schiller-Theater Berlin; Schiller's *Maria Stuart* from Bremen; Lessing's *Emilia Galotti* from the Burgtheater in Vienna; Thomas Brasch's *Lovely Rita* from the Werkraumtheater of the Munich Kammerspiele; and Botho Strauss' *Gross und Klein* (*Big and Little*), featuring the "stations-in-life" of a woman named Lotte, at the Schaubühne am Halleschen Ufer in West Berlin.

Three other productions of the theatre festival fell by the wayside due to technical and artistic difficulties, or simply because of absence from the repertory schedule. They were Schiller's *The Robbers* at the Düsseldorfer Schauspielhaus, Strauss' *Big and Little* at the Munich Kammerspiele, and Robert Wilson's *Death Destruction & Detroit* at the Schaubühne in Berlin.

Members of the ten-person jury openly referred to the selection as a "scandal" or prejudicial to "favourites" (a common illness at the Theatertreffen). The Director of the Berlin Festivals, Dr. Ulrich Eckhardt, countered by changing the dates of next year's festival, thereby including the productions of the entire season (instead of the overlapping March-to-March scheme). How that will rule out favouritism is questionable, but at least the critics on the jury will have to give evidence of seeing everything in search of the best. As it is now, the only criterion that applies is window-dressing.

The one production that weathered the critical storm was Nicolas Brieger's *Maria Stuart* (Bremer Theater) a Schiller without exaggeration or technical pomp but respect for speech and ensemble acting. In contrast to the mutilation of Sophocles, this was both a pleasure and a relief.

Ernst Wendt's production of Brasch's *Lovely Rita* (Münchner Kammerspiele) should never have been staged for 99 customers on grandstand seats in the roomy Freie Volksbühne, particularly as this was originally a workshop presentation and lost its character in leaving the cellar for an auditorium. Like Rainer Werner Fassbinder's film, *The Marriage of Maria Braun*, this is a chronicle of the immediate post-war years in Germany (Brasch, a former East German dramatist, couldn't stage his experimental play in the German Democratic Republic in the past and now has conveniently changed the play's context to fit his exile in the West). Its a play about a 17-year-old (Lisi Mangold) whose movie phantasies lead to the killing of an (American-Russian) officer she is living with, but it also treats (why not?) the problem of anarchy today. The entire action takes place in the seating portion of the theatre (the audience sits on the stage), the most impressive scene staged behind the glass windows of the technicians' room in the rear where a police drilling of Lovely Rita takes place.

Stage design has also become an obsession at the Schaubühne am Halleschen Ufer. The Robert Wilson production of his own *Death Destruction and Detroit*, "a play with music in two acts," was conceived (and written) with the current Schaubühne experimentation phase in mind: the five-and-a-half-hour marathon used images, litanies, lighting, symbols, and the like to explore the human psyche without any evident rhyme or reason—sixteen scenes of myth and magic and mumbling on the twentieth century in decay and ruin.

The same esoteric, albeit fascinating, embrace by a stage design to provide a "journey into the self" summarised Peter Stein's production of Strauss's *Big and Little* in a fairgrounds pavilion (formerly at a film-studio) rented for the occasion by the Schaubühne. Our heroine, Lotte (Edith Clever), gradually suffocates to death in the modern-day hot-houses of the *Spiessbürger*: a trip to Morocco to a vacation paradise, a garden on the island of Sylt, a doctor's office, street scenes and bedroom romps—an ever-changing Hollywood movie set (staging by Karl Ernst Herrmann). All the same, a four-and-a-half-hour quest for the meaning of life adds up to a long evening.

£3,000 and gold medal for young trombonist

The winner in the national final of this year's Shell-London Symphony Orchestra music scholarship is Ian Bousfield, aged 15, from York. He wins a gold medal and £3,000. Ian, who was the Manchester area finalist, is still at school and plays the trombone.

Architecture

Sheer aesthetic pleasure

by COLIN AMERY

The Architectural Association School of Architecture was described in a recent letter to the Financial Times as the oldest, largest and best architectural school in the world. These generous claims can easily be tested by a visit to this year's annual exhibition of students' work. It is an impressive show. The AA occupies some of the elegant houses on the west side of Bedford Square and a visit to the exhibition involves a complicated tour of the school's premises the visitor leaves with a fairly vivid impression of how the AA works.

The school is a unique combination of learned society, club and informal centre for the enjoyment of architecture. It has a membership composed of practising architects, teachers, students and others with a lay or professional interest in architecture. It was founded in 1847 to widen the education of architects, who were then mostly trained in the pupillage system, and it remains the only independent school in the country. This independence is a great asset and the extraordinary range of work currently on view certainly reveals no slavish adherence to any doctrinaire approach to architecture.

What does shine through this show is that the AA staff and students are concerned, not to produce a new manifesto or strategy for the future of architecture, but to re-examine architectural values. There is a determination to reinvest new architecture with meaning, and this has involved the students in a difficult reinterpretation of archetypal forms. This task has led to an encouraging reappraisal of the role of architectural history which has now been given a more creative part to play in the design process, instead of its more usual academic background role. Professor Colin Rowe, the English-born professor of architecture at the University of Cornell, recently spoke in London about the need for modern architecture to be fertilised from other cultural disciplines, and this is what is so evidently happening at the AA today.

The most rewarding of the student projects in the AA exhibition are those concerned with the study of urban space. The fact that some of the students demonstrate a high level of draughtsmanship is encouraging, but it is not the most important element. This sensitive approach to drawing is a manifestation of a concern for the interaction of form and meaning. Eric Parry and Philippe Aries show designs for a city Necropolis that crystallise dramatically the return of symbolism and monumentality to urban architecture. The influence of Schinkel, Rossi, Krier and the Beaux Arts drawing does impose a rather aggressive formality on many of the projects, but throughout the exhibition there is a return to the sheer aesthetic pleasure of architecture.

One of the features of the AA school has always been that it has welcomed and benefited from the large number of foreign students that study there. But there are serious fears that because the AA receives no mandatory support from local authorities or central government fewer and fewer British students will be able to afford to go there. It looks as though more than 70 per cent of the students next year will be from abroad unless there can be increased financial support for British students. It is a sad irony that the best British school of architecture should have such a small proportion of British students. The present exhibition proves beyond all doubt the vitality and competence of the school.

Round House

Prometheus by B. A. YOUNG

The Round House auditorium has been cleared of its circle of seats to give more room to the Living Theatre for their production of *Prometheus*. It certainly is more lively than when I saw it at the Olympia in Dublin, but that doesn't mean it's very lively. The actors who wander about shouting, or whispering, seminal phrases at the beginning are now able to come between the benches that fill what was half of the round stage, but this hardly seems worth while when you discover that all they are saying is "They are burning down their own houses" or "We wanna zap them with holiness."

The first act, in fact, is pretty much of a mess, 75 minutes of assorted mythology in which Prometheus's theft of fire from the gods is blended with references to Gandhi and to Zen Buddhism and to the five solid figures (built from wire and exhibited on the heads of male nudes) that gave birth to the elements. The text, not all audible because of the eccentric way it is spoken, chanted or sung, is accompanied by movement that I hardly dare call dance, though clearly it takes, as W. S. Gilbert said, a deal of training.

It is three-dimensional, moving not only about the stage but up and down the elaborate scaffolding devised by Julian Beck and Apollo Broom. We slip from myth to myth—Orpheus, Pythagoras, Metis, Io (Judith Malina, pursued by the Furies, Wittgenstein, Schopenbauer and Simone Weil, until she is left wailing that she can't pay her gas bill).

Act 2, the storming of the Winter Palace, is more fun. Mr. Beck, who wrote the script and directs the performance, had less trouble raising a score of volunteers from a rather scant house than he had in Dublin. Cast as Red Guards, terrorists, Bolsheviks, Anarchists, pacifists, women and actors, they were able to move freely all over the house once their rehearsal was over. Unfortunately the action is so often interrupted with verbiage that this act began to feel as interminably long as the first. But its moral is clear, that the stealing of power, like the theft of fire, is a dangerous practice that leads to the imprisonment of Anarchists and unpaid gas bills.

In Dublin, Act 3 was an invitation to demonstrate outside the Ministry of Justice, and indeed the demonstration itself complete with the stronger members of the audience. Last Thursday it was an invitation to demonstrate at Holloway Gaol. At least I am told it was. I didn't wait. I'm afraid.

St. Bartholomew-the-Great, EC1

Suoraan by DOMINIC GILL

The penultimate concert of last week's well-intentioned but fragmentary festival of 20th-century music at St. Barts was given at lunchtime on Saturday by the English ensemble with the Finnish name of Suoraan.

They played five works, two for the first time. Richard Emsley's *At Once* ... was a prettily made lyrical essay, neatly worked, for a quartet of piano and percussion, oboe and flute. The opening conjunctions (four players together "at once") turn quickly to opposition, and finally to disintegration; there is opportunity meanwhile for some imaginative conversation—especially between partners, percussive and wind: leaping figures tossed between players, a mournful thematic fragment discussed, but never resolved, by oboe and flute. Short (seven minutes) and elegant.

Under the eyes by Nigel Osborne, for voice, piano and percussion, is two sections only of a projected five-part work called *Night Ferry* — settings with instrumental interludes of words by the Ulster poet Tom Paulin. In its simple gesture and spare texture, the music reflects the fierceness and directness of the language: the match is careful and effective. I am not entirely convinced that the poems (a perennial problem for composers) do not nonetheless stand more powerfully alone, unadorned? — but these two sections were an intriguing foretaste: perhaps when the other parts are finished they will more clearly justify the whole.

For the rest, Nancy Ruffer gave a sound, well-prepared account of Berio's *Sequenza* for solo flute which gained some interesting overtones and colourations in the ample resonance of the church; and Michael Finnissey gave a very good, strong performance of Brian Ferneyhough's little set of *Epigrams* for solo piano—whose quick, hard lines and austere colouring the acoustic also lent an unusual bloom. Vinko Globokar's playing on the trombone of his own *Atemstudie* is a bodily tour de force, compelling in its massive physical presence and concentration. David Powell's performance on the oboe of the same work discovered a quite different emphasis, light, daft and amusing—and why not, for a change.

ICA Theatre

Cronus Eleven by MICHAEL COVENEY

What with yesterday's theatrical *avant garde*, the Living Theatre, tottering back into the Round House (no doubt stopping off *en route* to draw their pensions), it seemed a reasonable idea to see what's much-heralded Dutch performance art group, Taller Amsterdam, were up to at the ICA. Not very much is the answer, unless you happen to be a photographer interested in snapping pretentiously lit *tableaux* of shop-window mannequins.

The title, like the show it advertises, is meaningless. And, as night follows day, such fare is inevitably accompanied by glossy publicity material proclaiming its virtues. A construction of tubular scaffolding is inhabited by inanimate models and slow-moving actors, all in either black or white and sporting expressionless masks. Until, half way through a very long 50 minutes, the actors don animal faces to read blank sheets of paper in time to the painful doodlings of a live, or relatively live, harpsichordist.

Something along the lines of Zamyatin's One City is being attempted, presumably, as the sculptured landscape creaks slowly awake at the bidding of offstage footsteps, clanking doors and piercing alarm bells.

No contact is established with the audience, who might as well be looking at each other as at the show. Which is precisely what I proceeded to do.

Thomas Yang and Ann Dickie in "Celebration"

Sadler's Wells

Night with Waning Moon

by CLEMENT CRISP

The worst thing about Christopher Bruce's new ballet, given its first performance at the end of last week, is its programme note, which ascribes such modish virtues to Columbine as early championship of women's rights and a fondness for reading. Beyond telling us that she was kind to her dear old mother and had a light hand with pastry, Bruce spares us nothing in cataloguing her merits in the light of today's feminist battle.

All this is words; what matters is that the ballet itself is well done, excellently designed by Pamela Marre, and rich in that allusive poetry that Bruce brings to his choreography. The setting is a curved colonnade of charcoal-grey arches, surmounted by a starry dome. Through the arches we see the flashing, tattered reds and greens and whites of costumes worn by Columbine, Pierrot, The Captain, Harlequin and four little Pierrots: the action finds Columbine courted, then brutalised by The Captain, and finally consoled by Pierrot.

The score is George Crumb's Lorca settings entitled "Night of four moons" for contralto (Doreen Walker, very good) and chamber group. Bruce finds—as he has done in three previous works—a vivid response to Crumb's musical language: he fixes both its lyricism and its sparse, disturbing sonorities in dance scenes of quick, apt mystery. The philosophising behind the piece seems gratuitous: movement is dramatic—Columbine by turns merry and then cruelly abused; Pierrot offering echoes of Fokine's creation in *Le Carnaval*; The Captain all vanity and opportunist lust—and sharp-edged.

The final moments when the cast reappear cloaked before departing has the timeless beauty of Callot's drawings of the commedia dell' arte. Performances are most satisfying: Sally Owen has both the vivacity of temperament and the pathos for Columbine; Thomas Yang, Yair Vardi and Gianfranco Paoluzi (as Pierrot, The Captain, and Harlequin) are no less directly communicative. And Pamela Marre—who made the fine designs for Lynn Seymour's *Rashomon*—is a theatre artist of real distinction.

The programme also brought the first London showing of Siobhan Davies's first work for the Rambert company. *Celebration* is a set of dances, to contemporary scorings (by Nicholas Carr) of medieval organa and motets, which uses five couples. Its language is spare, contrasting slow solos with duets, group dances with moments when the cast are grouped watching a single performer. A first viewing gives an impression of unevenness of inspiration. I admired a solo for Lucy Burge in which turns and twists of the torso and arms found energy fading into a diminuendo as gesture expended itself: there are poses which hint at odd, sculptural images—as diverse as Gothic angels and reclining figures by Henry Moore—and sudden bright outpourings of movement. The restraint of musical form has evidently dictated the slightly naif manner of the choreography, but I need a second look at *Celebration* to try and decipher its dynamic message—or the relevance of its title, for it looks singularly uncelebratory to me.

The inclusion of a workshop piece, *I'll be in Touch*, by Sally Owen and Leigh Warren, seemed ill-advised: I could find in it no merit as illustration of two poems by John Betjeman. The opening *Running Figures*, by Robert North, is pleasing because of its absence of any pretention: it is an uncomplicated and agreeable study which offers exactly what its title suggests, and it is further enhanced by Geoffrey Burgon's Bach capriccio *Goldberg's Dream*, a score that beguiles the ears as North's dances do the eyes.

LSO's 1980 tour

The London Symphony Orchestra is being sponsored with £100,000 by American Express for a tour of America and Canada next year. The 19-day tour will be part of the orchestra's 75th anniversary celebrations.

CRICKET BY TREVOR BAILEY

Gower has the mark of greatness

WELL BUILT, a graceful, almost languid mover, good-looking with slightly delicate features and considerable personal charm, David Gower has all the characteristics needed for the juvenile lead in British plays of the 30s and 40s.

At 22, he is the youngest Englishman to score a double century in a Test since the war and is plainly the most exciting batting prospect this country has produced since Ted Dexter strode on to the international scene.

Gower's brilliant tour de force against India on a benign pitch against an insipid attack was significant for several reasons. First, there was the sheer size of his achievement. Second, he gave no chance. Third, it showed that he has the application, both physical and mental, to build a massive innings which has always been a hallmark of the great player. Finally, my abiding memory of his innings will not be his score, but the elegant, almost casual, manner in which his runs were collected.

Although his colleagues played well, Boycott intense and determined, reaching his century with sheer hard work, Gooch strong and imperial, and Botham powerful and boisterous, none made batting look as easy as Gower with his relaxed stance, flowing backlift, and full follow-through. He is a touch player, who caresses the ball to the boundary, but because of his timing and style obtains power which enables him to beat deep-set defensive fields.

During his innings, Gower reached his thousand runs in Test cricket. It has taken him only 20 matches, fewer than any other English player since the war. The previous fastest were Peter Richardson, a fact which will probably surprise many, and Ken Barrington, who both took 22 tests to complete their thousand runs.

The three England cricketers who achieved the feat in under 20 tests are all immortals of the game, Wally Hammond in 18, and those two superb Yorkshire openers, Sir Len Hutton in 16 and Herbert Sutcliffe in a mere 12, faster even than Sir Donald Bradman who took 13.

Gower's double century was his highest score in first-class cricket and ended a comparatively lean spell. Oddly, his record for his county has not been very fruitful this summer.

Leicestershire have been vital in Gower's development by giving him an early opportunity to play first-class cricket under Ray Illingworth and encouraging him to go for his shots from midway in their batting order.

Now the time has surely come for him to move up their order from No. 5, to 3 or 4. Apart from Brian Davison who would have been a Test cricketer if South Africa had not been banned from the international scene, Gower is their most accomplished and certainly their most brilliant player. It follows that the higher he bats the more opportunities there will be for him to score runs. This in turn will benefit his club when it comes to bonus batting points.

One of his most impressive features is the manner he puts away the bad and not-so-bad ball for four, rather than a single, so that his score mounts quicker than one realises. The case becomes even stronger now with the first innings artificially restricted to 100 overs.

On a plumb pitch the opportunities of a No. 5 are liable to be limited in domestic cricket. When Gower went to the crease at Edgbaston, 71 overs had already been delivered. In a county game this would have meant that his innings would have had a maximum of 29 overs.

Confidence plays a major part in batting and is directly derived from runs scored. As a No. 3 or 4 Gower should not only score more heavily for Leicester, but would probably learn greater discretion just outside the off-stump early on.

Blessed with a fine temperament and a sensible approach, this young left-hander, given the health, looks destined for a long and distinguished career. There is only one real danger. The next time he encounters a lean spell he must ignore the well intended advice to cut out this and that shot. Otherwise he could find himself just another accomplished accumulator, shorn of the strokes and the inspiration that separates the genius from the workman.

TENNIS BY JOHN BARRETT

Britain now faces tough tie in Italy

GREAT BRITAIN yesterday completed a 4—1 win against Spain at Eastbourne in their first Davis Cup match of the 1979 campaign. It earned them a zone final against Italy in the second week of September, presumably in Rome. The Italians converted their overnight lead of two rubbers to one against Hungary and will start favourites to win for a sixth time since the war against Britain.

In yesterday's dead rubbers against Spain John Lloyd was beaten 6—3, 6—0, 6—4 by Jose Higueras, and, finally, with Buster Mottram and Manuel Orantes rested because of fitness doubts, Mark Cox beat Antonio Munoz 6—1, 6—3, 6—2.

The British captain, Paul Hutchins, can be satisfied with a job well done. Few believed that John Lloyd would win so decisively against Orantes, and Mottram against Higueras as they did on Friday.

But, having achieved such a strong psychological position over the Spaniards, it was less surprising that David Lloyd and Mark Cox completed the job with their 2—6, 6—2, 6—4, 6—4 doubles win against the same two Spaniards on Saturday.

The British pair came together for the first time last September against Czechoslovakia. In that tie, also played at Eastbourne, and against Australia in the semi-final at the Crystal Palace in October they won decisively to build a 3—0 winning lead.

The sheer enthusiasm and dynamic vitality of David Lloyd is the factor which opponents find so difficult to tame. He seems to inspire Cox to a level of consistency that, at 36, he does not always now command.

Eastbourne has been a happy hunting ground for British Davis Cup teams since the war. Of the 14 ties played at Devonshire Park, Britain have now won eleven. From their point of view it was unfortunate that Hungary did not succeed against Italy in Rome. If they had, there would have been another home tie at Eastbourne.

Not too much significance should be attached to John Lloyd's defeat by Higueras yesterday. Those who regarded it as 93 minutes of misery for Lloyd and the British camp do not understand the problems facing players involved in a dead rubber.

Throughout, Lloyd was trying —but without the surge of adrenalin produced by a need to win, he was missing the last shot of so many rallies by a small margin. When he led 4—2 in the third set there was a lack of urgency about him that allowed a smile or two at the vociferous Spanish students.

Hutchins would doubtless have preferred a firm British win for he was conscious of the gamble of selecting Lloyd in the first place. The No. 2 Briton had won only singles match since beating John Alexander last October in the semi-final. But the important thing is that he did win against Orantes and win handsomely. Moreover, he had worked as never before during the previous two weeks and had reached a peak of mental and physical fitness for the occasion. Hutchins' task will be to motivate him to the same degree of readiness for the match against Italy.

A more difficult aspect of the team's preparation will be to secure match play on clay courts. The date of the tie follows immediately upon the U.S. Open championships which, since last year, are played on a fast, cement-type surface.

The fact that Britain have never beaten Italy since the war will not deter this united team —for it is unlikely that Hutchins will change the squad next time. To have all four players involved—two in singles and others at a doubles pair—is ideal for the Davis Cup. It was the foundation for Britain's successful run in the 1930s when Perry and Austin shouldered the singles responsibilities and Hughes and Tuckey played the doubles.

After reaching the Davis Cup final last year for the first time in 41 years it would be great to believe that the same team could go one better this year, and recall those glorious years of the 1930s. But Adriano Panatta and Corrado Barazzutti, the likely singles men, and Paulo Bertolucci, who will probably play doubles with Panatta, will take some beating, particularly in front of the noisiest and most partisan supporters in Europe.

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Monday July 16 1979

New departure in Italy

ITALIAN President Sandro Pertini's bold attempt to solve the nearly seven month long Italian political crisis by asking the Socialist Party leader Sig. Bettino Craxi to try and form a government has put a cat among the Italian political pigeons.

His move surprised everybody — including Sig. Craxi himself, whose party failed to make the hoped for gains in last month's inconclusive election but which nevertheless remains the largest left-wing party deemed eligible for full participation in Government. The Communist party, which polled three times the votes of the socialists in spite of its 4 per cent drop in the June elections, is still not considered eligible for inclusion in central government. It has, however, responded cautiously but on the whole favourably to the possibility of a socialist led administration.

Party's response

But it is the Christian Democrat party's response to the new initiative which really counts and the prospect of a government led by a non-Christian Democrat has increased the already considerable confusion within their permanently divided and fractious ranks.

It is especially embarrassing for the party secretary Sig. Benigno Zaccagnini who was originally called in nearly four years ago to provide a fresh and incorrupt leadership image to a party then facing a massive challenge for primacy from the Italian Communist Party.

He faces a strong challenge to his position at the forthcoming CD party congress this autumn and would clearly not be helped if he allows the Premiership to slip out of the hands of the party which has provided the country with all its Prime Ministers since 1947.

The Communist challenge concentrated Christian Democrat minds wonderfully in 1976 but the potency of this challenge has been diminished by the PCI's poor showing at the last elections. What has not been diminished however is the deep dissatisfaction which lies behind the Communist vote and which now extends well beyond it to the various radical and fringe groups and well beyond them to the organised terrorist bands.

It is frequently argued that Italy as a whole shows a remarkable ability to survive and even prosper despite an air of almost continuous political crisis. The economy in particular has benefited from the ability of Italian industry to design, produce and sell on world markets and adroitly circumvent the obstacles placed in its way by a top-heavy, big spending bureaucracy and militant trade unions.

The absence or irrelevance of government has forced Italy back to the form of organisation it can handle best — the small, often family based, economic unit and a kind of extended cottage industry using the latest technology but avoiding government control and union conditions. It has made Italy as a whole much richer than the official statistics admit and contributed to the building up of foreign reserves which now stand at nearly $33bn—and this in a country virtually without energy and raw materials.

But all this has imposed sweatshop working conditions on millions of non-protected workers in the "submerged economy" and on the poor generally who are also the hardest hit by the failure of government to provide an adequate health and social security service as well as a good educational system.

Political jam

Veteran socialist leader Pietro Nenni once said that Italian governments have always been strong against the weak and weak against the strong. The aim of the left in Italian politics has always been to reverse this state of affairs. The mere selection of a Socialist Prime Minister will not of itself do much to move Italy in this direction. But it could just conceivably do something to shift the present political log jam.

With an energy crisis and world wide inflationary stagnation in prospect Italy needs a government to take clear decisions on a wide range of issues — including, most immediately, controversial decisions on nuclear power stations, and energy pricing. Sig. Craxi may or may not be the next Prime Minister but the longer Italy waits for a new government the more intractable the problems are likely to become.

The case for taxing gas

TWO UNCONNECTED events last week focused attention on an important oversight in the government's budget strategy. While Sir Geoffrey Howe announced that he intended to make no further changes in VAT during the lifetime of the government, the British Gas Corporation admitted that the restriction of its price increase this year to 8 per cent had produced a huge upsurge in gas demand, which it may be unable to meet in the peak period this winter.

Since further VAT increases have now, thankfully, been ruled out, while increases in direct tax would contradict the whole thrust of the government's policies, Sir Geoffrey will have to look around for alternative measures if he wants to reduce the borrowing requirement further in the next year or so. The most obvious and desirable way of raising extra revenue would be to channel into the exchequer the huge monopoly profits from Britain's gas reserves. At the moment these accrue solely to British gas and its domestic customers, who, unlike industrial gas users, are shielded against world energy prices.

Two ways

The government may not be prepared to increase gas prices before next April, either because of fears about inflation or because of the promise of gas price stability that it rashly made at the time of the Budget. But it should start investigating the possibilities urgently and announce a tax on gas as soon as possible, even if it is not to be implemented until next year.

There are broadly two ways of setting the tax rate. Either one can equate the prices of all heating fuels with the cost of the most expensive one, oil, which is set by the market. Last November, the price of gas would have had to be increased by 35 per cent, to make it as expensive as oil for domestic central heating. Alternatively, domestic gas prices could be based on what industrial users are prepared to pay for assured supplies of gas on contract, in competition against other fuels. Industrial gas now costs around 25p per therm (and the price is due to rise by 20 per cent in September). This compares with roughly 18p per therm paid by domestic customers, after the recent price increase, which suggests that domestic gas should be about 40 per cent more expensive.

The similarity of these rough and ready results may be little more than coincidence, but it does suggest an order of magnitude for the appropriate tax level and for the revenues that would accrue. Current domestic gas consumption of 8bn therms a year is unlikely to be much affected by a tax that would leave gas significantly cheaper than other fuels, since the comparisons are based on prices before the latest round of OPEC price rises. So it would be reasonable to assume that a tax that would raise domestic gas prices by about 6p per therm would provide roughly £500m for the Exchequer. If the 5p per therm increase that has been announced for industrial customers were added, the total revenue gain would be about £900m.

Objections

There may be sound objections to a gas tax high enough to equate the prices of gas and heating oil. The use of gas in preference to oil for heating should be encouraged because it burns more efficiently, is cheaper to transport (in areas where gas mains have been laid) and, most importantly, does not have the alternative uses of oil. Similarly there may be some justification for preserving a differential between factories and homes because the inefficiency of other forms of heating is at its worst in domestic use, while the total supply of gas is, in the short run, constrained by the transmission system.

But there is no case for the enormous price differentials that now exist. The most recent increase in oil prices would be quite sufficient to make gas highly competitive even after a tax of the order suggested. Once the tax had been set, it could be revised infrequently, so that market forces would be able to guide the government in setting the new rate. British Gas would then still have ample scope to regulate demand with its pricing and promotion policies. On the assumption of reasonably efficient use, Britain's gas reserves should last well into the 21st century. A sensible pricing policy will, in the long run, benefit the exchequer and the gas consumer alike.

COMPUTER LEASING INSURANCE

Lloyd's of London faces its biggest losses

BY JOHN MOORE

LLOYD'S OF LONDON, the famous insurance market, is facing the largest series of loss making claims in its 300 year history.

The claims have not been caused by a major collision of supertankers, an air disaster with a large death toll, or a hurricane with a mass of damage to property claims. They come from an altogether unexpected quarter: that of the complex business of insuring computer leasing deals.

So far underwriters have been warned that they need to reserve $225m for future losses. But that situation has been complicated by the start in the last few weeks of a $628m lawsuit by Federal Leasing of Virginia, the largest legal action ever brought against London underwriters. Federal Leasing is claiming on its computer leasing insurance.

Together the reserve against future losses and the amount claimed in litigation represent, for purposes of comparison, well over a half of the overseas earnings of the Lloyd's insurance community. The reserve figure of $225m for future losses already stands at more than twice the previous biggest loss at Lloyd's arising from claims caused by the havoc of Hurricane Betsy in the 1960s.

The computer leasing affair is troubling much of the London insurance community. Some 55 underwriting syndicates at Lloyd's, each composed of hundreds of the working and non-working private members which provide the capital for the market, took an active part in the underwriting of the business.

Many of these syndicates are managed by subsidiaries of major Lloyd's insurance brokers in the London market, such as Hogg Robinson Group, C. T. Bowring, and Alexander Howden. A large number of insurance brokers were involved in the producing of the computer leasing insurances for Lloyd's underwriters both in the U.S. and in Britain. Even a number of insurance companies, including some with famous names such as the Guardian Royal Exchange, participated in the underwriting of computer insurances.

The story of Lloyd's involvement with computer leasing insurance dates back to 1973. Towards the end of that year a large insurance broker approached Adam Brothers Contingency, a small firm of specialist Lloyd's brokers who describe themselves as subcontractors to the larger and more general insurance intermediaries. Adam Brothers was asked by the larger broker if a contract could be designed for a client, a specialist leasing company called Surety Industries Inc. of the U.S.

The industry that Lloyd's was to become associated with for the first time operates in the following way. Leasing companies borrow from banks to buy computers. They lease the computers to companies which pay a rental. The leasing company repays its debt to the bank as the rental payments flow in.

What computer leasing companies were looking for in their operations was a way in which they could protect themselves against customers cancelling their leases early and leaving the lessor with equipment worth less than the amount still owed on it. Adam Brothers produced an answer to this problem.

Adam Brothers is experienced in arranging "contingency" insurance cover, a type of insurance which owes much of its development to the Lloyd's market and has gained the community its reputation for being able to insure all manner of unusual risks. The contingency policies which Adam Brothers has designed include those for the abandonment of functions like boxing matches, the non-appearance of theatrical or sporting personalities, the cancellation of contracts due to non-delivery of equipment, and performance penalties due to the malfunctioning of machinery.

Like a lot of its work, Adam Brothers treated the computer leasing insurance account of Surety Industries as a "one-off" job. At the time Adam Brothers did not realise that it had opened the floodgates for more inquiries. In the highly competitive leasing industry in the U.S. word spread about the Lloyd's computer policy. Inquiries streamed in for details of the cover to the extent that the market had to be closed for acceptances of business. No new clients were accepted. By 1976, 130 leasing concerns were on a waiting list.

Of them, 20 were offered insurances, half being leasing subsidiaries of major banks, and the rest independent leasing companies. Most of the assureds were based in the U.S.

WITH THE COMPLIMENTS OF
ADAM BROTHERS CONTINGENCY LIMITED
15 ST. HELEN'S PLACE
LONDON EC3A 6AB

> ". . . this policy is to indemnify the Assured for their loss sustained in respect of their said obligation assumed under the terms of their Loan or other Agreements, as declared, up to but not exceeding the respective sums insured, as declared, in respect of each said Lease Agreement, solely and directly in consequence of the termination of or non-renewal of any declared Lease Agreement in whole or in part due to any cause beyond the control of the Assured"
>
> —*Extract from an Adams Brothers draft of Lloyd's computer lease policy.*

Subsidiaries of major banks

The Adam Brothers computer policy had many attractions. Leasing companies were covered against the risk of cancellation of their leases for reasons other than the insolvency or default of their customers. The terms of the computer leases themselves varied but usually they could not be broken by the customer leasing the equipment from the leasing company until three or four years after the beginning of the contracts whose average life was seven years.

So about half-way into the life of the lease the customer could exercise the break clause in the leasing agreement, in which case the equipment would have to be sold by the leasing company or leased to someone else. If the circumstances of the cancellation were beyond the control of the assured — meaning the leasing company — he could claim on his insurance.

There was a basic flaw in the scheme. The policies seemed to take little account of the effect that advancing computer technology would have on the resale value of computer hardware, or its acceptability to a new leasing customer.

Lloyd's entry into the computer leasing business was unfortunately timed. The insured leasing contracts were mainly on IBM 370 series computers, a range which had been on the market for some years. It had first appeared in 1970. The likelihood of the models being traded in ahead of the seven-year period was therefore greater than if Lloyd's had offered the insurances at the beginning of the life of the range.

But what really stimulated the flood of inquiries to Lloyd's about this insurance was that the policy was proving a sure fire way of attracting finance, by making the leasing company look a better risk.

The insurance cover impressed the banks and other lending institutions which financed the leasing company operations. The policy appeared on the market at a time when many of the banks had taken a dim view of the trend of computer developments and had decided to proceed with some caution in financing leasing concerns.

When the computer leasing policy appeared the banks were only too happy to regard it as an additional form of collateral. They extended credit to the leasing concerns far in excess of what their net worth and financial condition would have permitted. They appeared to be relying on the assurances of prompt payment from the underwriters in the event of early termination of the leases.

Insured values of the computer leasing business in the market came to about $1bn. Half of the amount was on mainframes, half on peripherals such as tapes and discs.

The computer leasing insurance business of Itel, a San Francisco leasing company, accounts for over half of the mainframe insurance business at Lloyd's. It has little insurances on the peripheral side. Federal Leasing's account at Lloyd's represents between 10 and 15 per cent of the insured values.

In 1977 IBM announced a new series of computers. This might have provoked a few cancellations of leases but it was, according to Lloyd's, a price reduction of 30 per cent which led almost every lessee to give notice of likely cancellation with a view to either changing equipment or renegotiating his lease on better terms. By August 1978 Lloyd's underwriters realised they had a serious problem. Itel executives came to the UK to discuss the matter with underwriters.

Toplis and Harding, the loss adjusters, were commissioned by a working party of underwriters to produce an estimate of the likely losses. They arrived at the amount of $225m but the final figure could be higher, or possibly lower. Some members of Lloyd's may have to top up their Lloyd's deposits because of the losses, which will virtually all fall on the 1977 underwriting account with a very small number in 1978. Lloyd's has told underwriting members that it is impossible to forecast the final result until all the leases have expired. Most expire in 1982 and 1983, but some are earlier and a small number run until 1985.

New class of business

Within the leasing community Lloyd's has been attacked for underwriting "crazy, crazy business." In the Lloyd's market some brokers have said that it was "plain bad underwriting."

"Hindsight," says Mr. Peter Green, deputy chairman of Lloyd's and one of the lead underwriters on the business. Lloyd's argues that if innovation is to take place within its market then risk has to be taken. Computer leasing was a brand new class of insurance business and it was impossible to be precise about the likely outcome.

The underwriters took on the insurance in the London market after detailed information had been provided by Adam Brothers. But, they say, inevitably the underwriting was based on an appreciation of the professional competence or expertise and integrity of the leasing companies insured, rather than on a thorough grasp of the market in which they were working.

A more worrying aspect of the computer leasing affair is the nature of the insurance business itself. It was its use as an effective financial guarantee which was the main reason for its popularity in the market.

A long established ruling in the Lloyd's market dating back to the 1920s prevents the acceptance of financial guarantee business. That ruling was established after a fraud. Under that rule a number of tests should be applied to see whether an insurance is a violation of the Lloyd's financial guarantee agreement.

Both underwriters and brokers involved in the placing of the business dismiss the idea that computer leasing insurance breached the financial guarantee rulings because the policy contained a condition that any loss recoverable by the assured was a result of a specified contingency, namely the termination of the lease.

But the question must be asked whether Lloyd's own internal checks on the class of business that was eventually to represent $1bn of insured values in the market were adequate.

The other disturbing feature of the business is the possibility that some of the leasing companies may not have run their business as prudently as they would have done without insurance.

What is likely to follow from the affair is a labyrinth of litigation as Lloyd's underwriters examine carefully their contracts in an effort to see whether their clients have honoured all the clauses.

Financial rulings

What the market will perhaps learn from the incident is that a generalised approach to complex underwriting subjects, while possibly appropriate in a less competitive age, is no longer viable in the late 1970s. The traditions of the gentlemanly institution in Lime Street die hard, but perhaps as a consequence of a potential loss of this size a means of investigating new forms of underwriting more closely will be adopted by members of the market.

The underwriting room at Lloyd's

Trevor Humphries

MEN AND MATTERS

Keeping someone else's promise

The collapse of the Lule regime in Uganda has caused severe headaches a long way from Africa, despite reassuring noises about foreign investment from the new president. Scores of British companies are seeking compensation for the disruption of their business during the Amin years, and were in active negotiation with Lule's ministers when the game of political musical chairs abruptly started again.

The total size of the claims is unclear. Among them is a seven-year-old invoice from BAT Industries for "several millions" following the take-over of its cigarette factory. But almost certainly the largest bill is from Mitchell Cotts, the international trading, engineering and transportation concern, which wants £10m for damage and loss of business on its 6,000 acres of tea plantations.

Chairman Philip Dunkley's description of the scene is like something out of *Heart of Darkness*: "The bushes have almost returned to trees. The people there had difficulty holding on to labour. The transport began to fail. They couldn't get spares—gradually they stopped hauling the tea from the far end of the plantations. The factories ran down . . ."

Dunkley maintained contact with "various elements" in Uganda during the Amin period, and last month flew out and agreed a compensation deal. "There was no doubt that Lule respected the rights of property owners and was coming up with a coherent policy of encouraging foreign investment," he says. A "letter of understanding" with the government gave his company 49 per cent of the shares in its subsidiary, the Uganda Company—expropriated by Amin—and the promise of no dividend being declared until Mitchell Cotts had been compensated. "It was a first-class deal," says Dunkley. The questions now is whether the new regime will honour it. Dunkley is still waiting to hear.

"If we don't get a phone bill soon we'll have to move."

Whatever policy emerges from the government of President Godfrey Binaisa, it is thought that the thousands of Asians robbed of their homes and livelihood by Amin are likely to get the worst deal—if they get one at all. Anything like adequate compensation for them is generally seen as politically suicidal.

Flying the flag

French Air Force officers are still grumbling over their pastis about President Giscard's decision to clip the wings of the Bastille Day fly-past. As a contribution to the government's oil saving campaign, the president decreed that a mere 97 planes and helicopters should fly over the capital last weekend—instead of the scheduled 161. Attacking a vulnerable flank, the president's critics (not all pilots) point to his profligate use of Concorde as a private taxi—it uses three times as much fuel as a Boeing 747 and carries a third of the passengers. The president uses the plane for almost all his intercontinental journeys — a practice normally eschewed by Pompidou and General de Gaulle even in the days of cheap oil when a president on board might have helped sell a Concorde or two. Now that there are manifestly no takers, it would seem reasonable to ask what the white bird, the longest-flying white elephant in history, has to gain from its client in the Elysee.

Struggling on

Jersey, Britain's favourite tax haven, might not sound like a *hotbed of revolution*—not the Marxist kind, anyway. The National Union of Mineworkers' shindig is over and headlines about Arthur Scargill's entanglement with the local hotel industry are mere lining for budgerigar cages. But, unlikely as it might sound, there is a 27-strong Communist Party of Jersey to keep the red flag flying until next conference season.

"Being a Communist here is a bit uphill," admits Mrs. Stella Perkins, a cheerful housewife, married to a printworker, who is party secretary. "We get the occasional rude letter and we don't pay the postage on any that haven't got stamps on. But, broadly speaking, we are trying to attract the working class."

Therein lies the rub—well over half Jersey's 74,000 souls are tax exiles or pensioners or both.

Persuading Jersey about the inevitability of revolution, says Mrs. Perkins, takes the form of "lectures on Marxism, that sort of thing," and selling the Morning Star, 67 of which can be disposed of on door-to-door rounds on a Saturday. The party also mans a citizen's advice office in St. Helier. Its chairman, more surprisingly, is a member of the island's Parliament.

Although elected to the Jersey States as the candidate of the 200-strong broad left Jersey Democratic Movement, Norman le Broq, a stonemason who joined the CP when he left school in 1939, has not watered down his views.

"*I see nothing quaint or out-of-the-way or peculiar about being a Communist in Jersey*," he says. "I've been elected five times. There's nothing quaint about that." He topped the poll in last year's election, a fact he and others attribute to the party's citizen's rights work.

There are real problems, such as housing, on the island, he *insists*. "*I'm notorious for not enjoying the fact that it's a tax haven. If we're supposed to be rejoicing, then where are the tangible results?*"

Surely even income tax at 20 per cent meant a reasonable revenue with so many millionaires? I ventured. "Oh yes," riposted le Broq. "We have a lot of local millionaires too, now — professional people, lawyers, hangers-on. . . ."

It looks like it will take a few more years to get dialectical materialism in Jersey up to the starting line.

Cruel sea

Weightier members of the underwater community may not be feeling entirely at ease about the latest decisions of the International Whaling Commission. But friends of the whale *anxious about those left to the* mercy of exploding harpoons will no doubt be amused to hear that the U.S. fisheries expert at last week's IWC meeting was confined to his hotel room for a large part of the proceedings: he went down with food poisoning after a seafood dinner on Tuesday night.

The catch

Sign in the foyer of a Niagara Falls honeymoon hotel: "Why not spend a second honeymoon here next year? Twenty per cent discount if with same wife."

Observer

FINANCIAL TIMES SURVEY
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Arab Banking and Finance

It seems likely that, in the wake of this year's oil price rises, Arab financial institutions will play a more important part than before in directly disposing of the OPEC surplus. But it is difficult to make predictions about the spending pattern of the oil states as priorities alter and the inter-Arab financial system develops.

A watershed year

By James Buxton

THE YEAR 1979 is likely to go down in the economic history of the Arab world as a watershed. The five-year period that began with the 1973-74 oil price rise effectively drew to a close in 1978 with the OPEC States' annual payments surplus down to about $11bn (compared with $65bn in 1974) and the revolution in Iran providing a grim warning of the dangers of explosive economic growth.

Iran's revolution has been the main factor in propelling the oil price up by about 60 per cent on average by the middle of the year and giving the OPEC States (almost exclusively the Arab ones) a current account payments surplus that in dollar terms seems likely to be not far short of that of 1974.

Because of the wide variety of prices now being charged for oil and the different dates on which they came into effect, the calculation of the 1979 surplus is a highly complex business. The consensus of preliminary estimates appears to be in the region of $40bn.

Similarities

The post-1979 era seems likely to have only a few similarities with the 1973-78 period. Both as a percentage of OPEC's revenues and in real terms, taking inflation into account, the 1979 surplus will be of a much smaller order than that of 1973-74, when revenues jumped from $28bn to $106bn. The more lurid fears about the OPEC surplus that were aroused in 1973-74 proved unjustified and the world banking system seems likely to be able to absorb the surplus as smoothly as it did the last time. This time, moreover, Arab financial institutions seem likely to play a rather more important part in directly disposing of a large part of the Arab OPEC surplus than they did before.

Plenty of questions remain to be answered, however. Whereas the post-1973-74 surplus was gradually run down as the Arab states' spending increased and subsequent increases up to the 18-month freeze ending this year provide full compensation for loss of purchasing power, the OPEC countries may well be able to obtain even higher earnings, producing increased surplus revenues. At the same time it is rather more difficult to make predictions about the Arab oil states' spending even in the immediate future, and to what extent it will increase in response to the greater revenues available.

Economic commentators expressed surprise at the fast rates at which the OPEC countries managed to increase their spending to match their new revenues in the wake of the 1973-74 price explosion. While it was not surprising that Nigeria and Algeria should have slipped relatively quickly into deficit, it was hardly expected that Saudi Arabia would overspend its official revenue of about $40bn by $4bn in the 1978-79 financial year, nor that states such as Abu Dhabi should slow down development as they saw spending growing at a dangerously faster pace than revenue.

Often it was forgotten that countries like Saudi Arabia and Libya had large and legitimate development needs. The inflationary escalation in the cost of implementing projects, as well as the wasteful extravagance and high spending on armaments was not fully appreciated. The erosion of the oil states' purchasing power was faster than had been expected.

It seems clear that most of the Arab OPEC states want to avoid any repetition of the economic explosion which followed the 1973-74 price rises, mainly because of the social disruption it caused. They will also be cautioned by the example of Iran from pressing on with too rapid a transformation of their countries by fast development.

Saudi Arabia, Kuwait, Abu Dhabi and Qatar will be the main contributors to the OPEC accumulated surplus, their pension fund, which is largely invested (for lack of alternatives) in the West. Investment within the Arab world remains an ideal. In a sense progress towards it has been slow, with at least one country, Syria, which was previously considered a promising outlet for investment, now generally disregarded. Yet considering how relatively new the concept of investment from outside is in several of the poorer Arab States, and the institutional problems in amending laws and practices to make it possible, it is remarkable how much investment has been absorbed—particularly by Egypt, Jordan, Tunisia, Sudan, Morocco and North Yemen.

With Arab aid running at about $5bn a year, the majority of its remaining inside the Arab world, the poorer Arab countries can expect continued economic development, opening up more opportunities for investment. Militating against the healthy development of these States' economies is the manpower drain of both brain and brawn to serve the richer Arabian States.

In the case of Egypt, the sanctions the Arab states are imposing as a reprisal for President Sadat's peace treaty with Israel mean that while project aid to existing schemes will continue, balance of payments support should cease. The sums Egypt received by virtue of being a confrontation state are being diverted to Syria, Jordan and the Palestine Liberation Organisation as a result of last November's Baghdad summit.

An Arab institution which is adding a new dimension to Arab concessionary aid operations is the Arab Monetary Fund, based in Abu Dhabi. Designed to function broadly on the lines of the IMF in the Arab world, it is gradually building up its strength. Ultimately it will have capital of about $1bn but so far not more than about $250m has been paid up. The AMF has allowed five countries to exercise their right of drawing down 75 per cent of their shareholding when they have payments deficits, and the AMF is soon to consider its first extended fund facility — for Sudan.

It hopes to improve its scope for investing unlent funds by putting them directly into Special Drawing Rights. Recently it made news by announcing that it would have no more financial dealings with Canada as a result of the Canadian plan for moving its embassy in Israel to Jerusalem. The AMF's decision is believed to have had only minimal effect since so little of its funds were invested in Canadian assets or Canadian dollar bonds.

The AMF can be regarded as one part of a growing inter-Arab financial system. Arab banks and financial institutions now play a far bigger role in handling Arab funds than they did before 1973-74. Institutions like the National Bank of Abu Dhabi and the Abu Dhabi Investment Company have rapidly become very important in the Euromarket as managers or co-managers of loans and Eurobond issues. The six-state Gulf International Bank has quickly established its presence in the Euromarket, while naturally in Kuwait the three big investment companies—the three Ks—play major roles. The various consortium banks involving western partners — including UBAF, BAII, Frab Bank and European Arab Bank—are energetic. UBAF recently secured agreement to syndicate a $500m loan for China.

Yet for all the oft-reported fast growth of these and other Arab institutions, the majority of Kuwait's and Abu Dhabi's surplus is invested by western financial institutions. The Abu Dhabi Investment Authority has more than two dozen portfolios operated by British, U.S., German, Swiss and French and Japanese concerns. Kuwait relies more on its own institutions, but many of its property holdings and a large portion of its equities are handled through western banks. Saudi Arabia's Monetary Agency relies almost entirely on non-Arab institutions to handle its investments.

At the end of last year the four Arabian states' accumulated surplus totalled about $110bn, of which Saudi Arabia held $59bn, Kuwait $36bn, Abu Dhabi and the UAE Currency Board $12bn, and Qatar $3bn.

Only two cities in the Arab world can claim to be financial centres on any scale—Kuwait and Bahrain. Neither Cairo nor Amman yet serves more than its local market, and Beirut is still awaiting stable conditions. Kuwait provides the most sophisticated range of services in the Euromarket, though it was only last year that the first top quality borrowers came to Kuwait. The market has been affected by sharp interest rate fluctuations, though the secondary bond market is developing. The relatively slow rate of innovation in Kuwait is mainly the result of a degree of complacency, stemming almost inevitably from enormous wealth, and from restrictions preventing foreign institutions operating there.

By contrast Bahrain has had to compete harder for business and has made a success of its offshore banking centre, which is both part of the international money market, acting as a window mainly for the Arab private sector surplus, and is an important intermediary in the Saudi, and to a lesser extent, Kuwait banking scenes. Bahrain, not being a capital exporter, has been less successful in bond operations, and the Bahraini Dinar bond market seems dormant. The ups and downs of the relationship between Bahrain, Kuwait, Abu Dhabi and Saudi Arabia are described more fully in this Survey, but all these poles in the Arabian financial system seem well able to coexist.

Manpower

The interdependence of the Arab financial centres is part of the wider economic interdependence of countries in the Arab world. This has been strengthened since the 1973-74 watershed less by trade than by the flows of aid and investment from the rich countries of the Arabian peninsula to the poorer Arab states, and by the flow in the reverse direction of skilled and unskilled manpower. The greater financial resources the oil states will acquire this year should enhance that interdependence, and provide further incentive for the not-unattainable goal of a unified Arab capital market.

Familiar pattern as surpluses grow

THIS YEAR'S jump in OPEC oil revenues is of much the same size in dollar terms as that experienced in the oil revenues explosion of 1974. The impact of the oil price rises on the industrial world's balance of trade and growth prospects is following the familiar pattern, and once again there are predictions of massive OPEC surpluses.

For 1979 OPEC's current account payments surplus is expected to be about $45bn, compared with the 1974 figure of $65bn. What is different in the present "crisis" is that the world's banks and monetary authorities are not worried by the prospect of the surplus.

In 1974 it was feared that the OPEC surplus would be a permanent feature and that the producers' foreign assets would grow inexorably year by year. It was feared that the banking system would be unable to manage the sums involved, that new international recycling mechanisms would have to be set up, and that apart from money given as aid the Third World countries would receive almost none of the recycled surpluses.

Worst of all, there were suspicions in less well-informed circles that the Arabs would use their surpluses as some sort of political money weapon, or, at the very least, would be liable to cause appalling upheavals by speculating against currencies and embarking on a megalomaniac buying spree of the industrial world's biggest corporations.

This time these alarmist sentiments seem to be absent. There is also confidence that the banking system will be able to handle the surplus on its own, although the Third World countries are already much more heavily indebted than they were when the 1973-74 crisis broke. More important, it is expected that the OPEC countries will once again quickly gear themselves up to spend their new revenues.

The pattern of spending may be different now that the small Gulf states have more or less completed their infrastructures, and there will probably be a new element of caution in the spending after the inflation and social disruption (highlighted by the Iranian revolution) that followed the last boom, but it still seems likely that the new surplus will be rapidly cut back to the $10bn-$20bn mark.

These sums are still substantial, especially when it is considered that most of each year's surplus will be in the hands of just four states: Saudi Arabia, Kuwait, Qatar, and the United Arab Emirates — or strictly speaking Abu Dhabi, whose state reserves are kept in its own name and not in the name of the federation. (Depending on internal events, Iran could join these states in chronic surplus.)

At the end of last year the accumulated official foreign assets of the Arabian surplus states' central banks and finance Ministries came to a grand total of about $110m. This was divided as follows: Saudi Arabia $59bn, Kuwait $36bn, Abu Dhabi and the UAE Currency Board together $12bn, and Qatar $3bn.

These figures in turn represented combinations of a variety of different items. The Saudi figure was simply the total of the Saudi Arabian Monetary Agency's foreign assets, published by the IMF, which in the Agency's own balance-sheet are listed opposite such liabilities as Government current accounts, deposits of local banks with SAMA, Government special and reserve accounts, and the accounts of various Government agencies and pension funds.

Commitments

The Kuwaiti figure of $36bn was made up of $2.5bn of assets held by the Central Bank and published by the IMF, $3.5bn representing the average amount of cash that the Finance Ministry is known to hold at any one time to meet its budget commitments, and $30bn representing the Finance Ministry's state "reserve."

This last figure has been calculated by adding estimated investment income and published budget allocations to the reserve to the figure of $27.4bn announced by the Kuwaiti Finance Minister for the end of 1977.

The $12bn total for Abu Dhabi and the UAE Currency Board was composed of: Currency Board assets $1bn, cash held by the Abu Dhabi Finance Ministry guessed at $2bn, and the "reserve" handled by the Abu Dhabi Investment Authority (ADIA), which was understood from an official source to be roughly $9bn.

In Qatar at the same time the state's $3bn foreign assets were derived from the same combination of Monetary Agency foreign assets of $0.2bn, Finance Ministry cash, possibly $0.5bn, and the Finance Ministry's reserve thought to be about $2.3bn.

What are regarded as "surpluses" by Kuwait, Abu Dhabi and Qatar are just the "reserves" handled by the Finance Ministries and ADIA. These reserves, therefore, are made up of accumulated budget surpluses to be used as a national pension fund. They are quite different from annual current account payments surpluses, which are the figures for OPEC's surpluses given at the beginning of this article, even though budget and payments surpluses are inevitably related.

It is to the "reserves," as opposed to the cash holdings of the monetary authorities and finance ministries, that considerations of investment policy apply.

With Saudi Arabia the position is a bit more complicated because of the country's practice of having all official foreign assets held by SAMA. This means that all foreign assets are subject to the same broad set of investment policies no matter from what source they derive.

Also, whereas in Kuwait, Abu Dhabi and Qatar the "reserves," being held apart, grow each year (even though the figures are seldom, or never, published officially), SAMA's assets fluctuate from month to month depending on government disbursements and the outflow of private money from the kingdom.

In the widest sense the investment policies of SAMA, ADIA and the Kuwait and Qatar Finance Ministries have not changed radically since before the 1974 oil revenues-explosion. In the last four or five years the authorities have become more involved in the markets and better geared to undertake more sophisticated operations.

On the other hand, as the SAMA Governor, Abdel-Aziz Quraishi put it when emphasising that SAMA still had to operate more or less along conventional central bank lines: "We do not engage in the sort of active portfolio management known among professional market participants."

At the same time more of the management of the reserves recently has been placed in the hands of Arab personnel who are coming to replace the highly respectable but somewhat conservative Western figures who used both to advise on investment policy and in some cases manage day-to-day operations. Kuwait and Abu Dhabi have also allocated more funds to be managed on the international markets by Arab institutions.

Changes of this sort, however, are relatively unspectacular. Most of the big policy departures in diversification into different currencies and longer-term holdings were made before 1974, and it is quite wrong to talk, as many people have done in the last few years, of the Arabian investment authorities "discovering new types of investment," or "becoming bolder," or "overcoming their reluctance to invest long term."

These comments may be valid when applied to a lot of individual private investors, but as far as the state authorities are concerned the changes in investment patterns that appear to have given rise to such comments have been determined by the condition of the markets or by the authorities' own changing requirements.

The basic decisions to invest the core of the reserves long term were taken at the time each state realised that it was about to become a chronic surplus economy. So Kuwait began channelling part of its reserve into equity investment in 1952, when the government set up the Kuwait Investment Board to run a portfolio in London and opened a further portfolio with Citibank in New York.

Abu Dhabi began building up equity and bond portfolios in 1971, during a period of retrenchment which followed two years of serious overspending. And Saudi Arabia began raising the maturity of its deposits and CDs in 1972, the year it came to the conclusion that it would have to embark on a programme of massive oil production increases which it was thought would be needed to meet soaring American demand in the 1970s.

As reserves have grown since these dates there has been a fairly steady diversification of the currencies held and the institutions receiving deposits or handling portfolios on behalf of the Arabian authorities.

On a slightly more radical scale and somewhat more in keeping with the tone of many of the comments on Arabian investment, was the Saudi decision in 1976 to open some portfolios of equities, whereas before it had no investments of this type, or anything like it at all.

Although there has been a diversification of currencies in recent years, to a point where now the four Arabian surplus states have assets of some sort in virtually every OECD currency, it is extremely rare for existing investments to be sold and the funds to be switched to a different currency.

This is notwithstanding the fact that between September, 1977, and November, 1978, it was calculated by one of the staff of the Arab Monetary Fund that the dollar had fallen by about 57 per cent against the Swiss Franc, 47 per cent against the yen, and 27 per cent against the Deutsche Mark.

Seen against a time scale of 25 years, the period to which the majority of investments in Kuwait are now geared, even these falls in the dollar are not important when compared with what the Kuwaitis view as the superior long-term growth prospects and political security of the U.S. as compared with Europe.

The funds that are moved around are the Finance Ministries' cash holdings, because these funds, held for just a month or two before being spent, do have their real value eroded if the currency in which they are being held declines temporarily. The Kuwait Finance Ministry admits that it has an active management policy (though not speculation) with its cash assets, which are held in London and are concentrated in negotiable instruments rather than deposits.

Code

Even here though there are limits on the authorities' freedom of action, given the size of the sums they command and need for them to observe the code of conduct expected of official investment institutions. For instance in 1977 the Kuwait Finance Ministry approached the West German authorities to ask whether they would mind if the Kuwaitis were to move a substantial piece of their cash into DM securities. As it turned out the Germans said that they did mind, and so the Ministry was unable to make its move.

As far as the substance of the investment policies applied to the states' reserves are concerned, the broad outlines for Saudi Arabia and Kuwait, which between them account for about 90 per cent of officially held Arabian Peninsula foreign assets, can be described as follows:

Saudia Arabia: Included in the figures given for total assets in SAMA's own balance sheets and in the IMF's International Financial Statistics are such non-commercial or semi-commercial items as contributions to the IMF and the World Bank, direct loans to other Arab or Third World countries or deposits with their central banks, and loans to the UN and one or two OECD governments.

However, from an investment policy point of view the three important categories of assets are deposits, fixed-interest securities issued by governments and portfolios of corporate bonds and equities.

Deposits are placed exclusively with banks on the Approved List, which in 1972 contained just ten names but has been expanded since on at least two occasions and is now thought to contain about 60 names. Nowadays it seems that SAMA deals directly with all the banks, though at one time in 1974-5 it took to channelling some of its funds through exchange dealers to disguise its identity.

The reason for this was that it had been finding that banks were automatically bidding lower when they heard that it was SAMA that was offering them funds.

The fixed-interest securities issued or guaranteed by governments or government agencies or international organisations are now mostly bought in private transactions in which the borrower makes a special issue for SAMA; the idea of the Agency applying this direct approach being that it avoids the payment of commission to issue managers.

Exceptions to this general rule apply in the case of some of the smaller governments, whose bonds SAMA buys through the lead managers, and certain specialised types of bonds, notably Yankee bonds (foreign government issues in New York), which are handled by SAMA's portfolio managers.

Apart from handing this sort of specialist and geographically remote operation the portfolio managers are used for purchases of equities and corporate bonds. As with buying Yankee bonds, these are operations which SAMA feels it would not be able to carry out efficiently itself — though recently there have been occasions when SAMA has made a more direct approach to corporations, suggesting, through an intermediary, that they might like to place a special issue entirely with SAMA in the way that some governments have done.

It is thought that there are up to ten portfolios, most of them in America, with between $100m and $200m contained in or earmarked for each. The managers are given very specific guidelines, a fundamental feature of which is that at no time may SAMA's investment reach 5 per cent of the voting stock of any company. As yet SAMA has not ventured into the real estate market at all.

Kuwait: Kuwait's reserve is now split into two portions, the General Reserve and the Reserve Fund for the Future Generations (RFFG) which is to remain inviolable for a quarter of a century. The first block of funds includes a number of commercial investments—though not the most attractive ones—but also has such items as interest-free direct aid loans, the capital of Kuwaiti state corporations and loans to Kuwaiti public companies.

It was because of the dilution of the income-earning quality of the pension fund implied by such doubtful assets that in 1976 it was decided to establish the RFFG. The new fund was started with $3bn of the most attractive existing assets, plus the 1975-6 budget surplus of $1.75bn. Since then the fund has been receiving 10 per cent of total Kuwaiti oil revenues, oil and non-oil.

Assets

For commercial assets within the Arab world the Ministry channels its investment through the Kuwait Real Estate Investment Consortium, which it established with the local real estate companies to run a property portfolio, and the Kuwait Foreign Trading Contracting and Investment Company, which holds the State's investments in inter-Arab development schemes.

Outside the Arab world the pattern of Kuwaiti government investment is very similar to that applying in Abu Dhabi and Qatar. Bonds are bought almost entirely through the three Kuwaiti investment companies and property is managed partly by the Ministry direct, partly by the Kuwait Investment Office, the Ministry's offshoot in London, and partly in American portfolios managed by Chase Manhattan and Bank of America.

Equities and other investments are bought through 16 portfolio managers: the KIO in London; Citibank, Chase Manhattan and Morgan Guaranty in the U.S.; Deutsche Bank, Dresdner Bank and Commerzbank in Germany; Swiss Bank Corporation and Union Bank in Switzerland; Credit Lyonnais in Paris; Algemene Bank Nederland and Amsterdam-Rotterdam Bank in Holland; Bank of Tokyo, Industrial Bank of Japan and Mitsubishi Bank in Japan; and Societe Generale de Banque and Credit Bank in Belgium.

Michael Field

Banking in the Gulf

TEN YEARS ago it was unusual for a man, and almost impossible for a woman, to have a bank account in the oil-producing nations of the Gulf—Kuwait, Saudi Arabia, Bahrain, Qatar, the United Arab Emirates and Oman. The few men who operated bank accounts, merchants, senior government employees and of course governments themselves, dealt with foreign-owned and foreign-managed banks. Banking business was essentially personal and uncomplicated.

Cashing a cheque could be an elaborate performance, however, involving presenting the cheque to a clerk, often Indian, at the bank counter in exchange for a number. The cheque wound its way across the floor of the bank, via the ledger, with various clerks marking it as it went. Eventually it would wind up on the desk of an expatriate bank officer, who would formally authorise its payment.

It would then go to the cashier who would bawl out the customer's number and count out his cash. More august customers sipped coffee in the manager's office and chatted about business in general until their money was brought to them.

The main activity of banks in the 1960s in the Gulf was the finance of trade, generally a comparatively simple matter of letters of credit and payments against shipping documents. Banks would finance a merchant's stocks held in local warehouses awaiting sale.

The risks were not great, the profits accruing to those banks operating in the Gulf were adequate. The management and senior staff of these banks were all expatriate, often with a lifetime's experience in the area, speaking reasonable Arabic and having considerable personal reputations.

They were competent, hard-working, prudent bankers who were seldom called upon to make a major credit decision, but whose knowledge of the local business community and its ways of conducting business was a very great asset to the banks who employed them.

The strength of these bankers was this knowledge of the community in which they worked. All business was personal, a man's credit rating being basically his standing in the community. Bad debts were almost unknown, for to default on a business commitment in a mercantile community would result in something very like excommunication.

Formal agreements were rare and the putting up of collateral, in the form of formally-pledged securities, to cover a bank loan was seldom expected. In any case, lending was almost exclusively short term.

The oil wealth of the last decade has seen an enormous upsurge in banking business, has brought to the Gulf a number of foreign banks without much local experience, and above all has seen the establishment of a number of government and privately-owned national banks.

The banking habit has spread right through most communities. Women now have their own bank accounts, and some banks, generally those with long experience in the area, have opened branches which cater only for their female clients, branches possibly broadly supervised by a male banker, but run on a day-to-day basis by female staff.

Financing of construction projects and of private building, much of it wildly speculative, has tended to replace trade as the major activity of some banks, especially banks new to the area and some of the locally-owned ones.

The financing of trade is still important for a majority of the old-established foreign banks, or at least those of them which are still foreign-owned. (Kuwait has nationalised all its foreign banks, though it employs foreign general managers in each of its six major banks. Saudi Arabia has all but completed the acquisition of majority shareholdings in its hitherto foreign-owned banks.)

What has not changed, in spite of the great pressures put upon the system, is the essentially personal nature of banking in the oil states of Arabia. Foreign bankers with little experience of the area, but with perhaps may years' experience of banking in New York, London, Frankfurt or Paris, and accustomed to precise documentation to loan applications made out on lengthy forms, and to carefully-established portfolios of securities to be used as collateral for loan applications, have been known to raise worried eyebrows at long-established practices.

But the experienced expatriate Gulf banker, whose professional career will include several years in each Gulf country, will tend to say: Ahmed bin So-and-So's credit is first class. His father and his uncle have both dealt with the bank for years as well.

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The dictates of Islam

ALL ACROSS the Moslem world, but especially in the Arab States and Iran, a new banking and finance system is being established to operate alongside the established commercial banking system. The new system is based on the dictates of Islamic economics, which prohibit usury, or interest payments, on either deposits or loans.

It has started offering a range of financial services that is virtually as broad and flexible as that of existing commercial banks, including bonds, certificates of deposit and current accounts. There are plans for a safety net linking the individual Islamic banks to a "central Islamic bank" which would be financed by the 41 States of the Islamic Conference.

In the current year no fewer than five new Islamic banks will have opened their doors—in Jordan, Kuwait, Egypt, Iran and Bahrain. They join three others (in Egypt, Sudan and Dubai) in forming the Islamic Banks International Association (IBIA), based in Jeddah. Its president is Prince Mohammad bin Feisal, son of the late King Feisal of Saudi Arabia who founded King Feisal Islamic banks in Khartoum and Cairo.

Applications

The Secretary General of the IBIA, Dr. Ahmed el Naggar of Egypt, told the Financial Times that he has recently received applications to help establish 13 more new Islamic banks in different countries. Three applications have come from Pakistani banks that are supposed to "Islamicise" their operations this year.

The seven members of the IBIA are discussing a plan to establish an Islamic Bank in Luxembourg, to operate internationally and to act as the main correspondent bank in Europe for the Islamic banks scattered throughout the Moslem world. The Luxembourg-based bank would be owned by individual shareholders as well as by the Islamic banks themselves.

Another move that is being discussed, according to Dr. el Naggar, is to have the Jeddah-based Islamic Development Bank act as a true central bank to the separate Islamic banks, with "organic links" among them to form an integrated international network of Islamic banks.

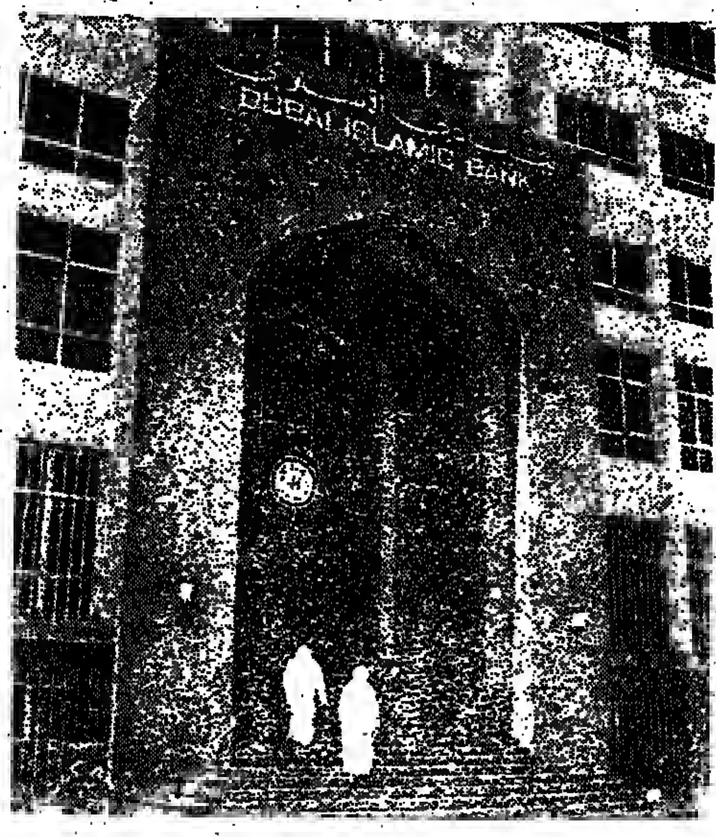
The Islamic Development Bank (IDB), since opening its doors three years ago, has committed $480m to finance 51 different projects in 24 of the 41 countries that make up the Islamic Conference. Also working on the Islamic principle of profit-sharing, the IDB has spread out its financing with roughly one-quarter for development projects, one-quarter as equity shareholdings in new companies and one-half to finance Moslem foreign trade. It has even established an Islamic Dinar which is conveniently exactly equal to one Special Drawing Right.

The IDB does not charge interest on its loans, though it charges a service fee on inherently unprofitable deals such as infrastructure loans and takes a share of the profit of the projects it finances. In the case of trade financing, it uses the same commercial system as the smaller Islamic banks that finance small-scale commercial deals for individual merchants. This is known in the jargon of Islamic banking as "murabaha."

Murabaha works on the following basis. If, for example, Algeria needs to buy fertiliser from Jordan, but does not have the cash to pay for it, the IDB will pay cash to Jordan and Algeria will receive the fertiliser immediately. The IDB and Algeria will agree on a fee for the IDB for forwarding the cash, which is usually determined on a per unit basis, for example one or two dollars per ton. When Algeria generates profits from the agricultural projects for which the imported fertiliser has been used, it repays the IDB.

Under murabaha, a bank depends on the merchant making a profit in order to be repaid. If the merchant does not make a profit and goes out of business the Islamic Bank shares the loss. In other words, Islamic banking strikes a fairer balance between the value of capital and the value of human effort and initiative than does ordinary commercial banking. Naturally Islamic banks are careful in choosing their clients.

The basis for Islamic banking and the prohibition of interest is the belief of the Moslem that capital itself should not generate a profit without any human effort being exerted. To guarantee a financial gain against a loan of money, as is done with interest-bearing deposit accounts or interest-charging commercial loans, is what the Islamic bankers call "riba" and it is strictly forbidden according to the Koran, the Islamic Holy book.



This is usury to Moslems, and the Koran deals with the matter rather firmly, as stated in the following Koranic quotation: "They who return to usury shall be given over to the fire; and therein shall they abide for ever. . . ."

Under the "Mudaraba" system, otherwise known as profit sharing, Islamic banks lend capital to an industrialist, for example, with the agreement that the bank will receive a certain fixed percentage of the profits of the project being financed by the loan. This means that the bank stands to make a large profit if the business is particularly lucrative, or conversely, it could share the losses if the new venture proves a financial failure.

According to Dr. Sami Homoud, the Jordan Islamic Bank's managing director, this is the vital social component of capital and the entrepreneurs establishing a new company. This promotes a balance between the value of capital and the value of human endeavour.

The Islamic banks now operating provide a full range of normal commercial banking services. Credit provision and trade financing are done on the profit-sharing basis, while transfers, foreign exchange, checking accounts and other non-credit services are provided on a commission or fee basis. This is allowed by Islamic dictates because the fee is paid for a service that involves a real exertion of effort—or work—on the part of the bank.

New services being provided by Islamic banks include "income bonds" and Islamic Certificates of Deposit which also work on the profit-sharing basis.

Some Islamic banks, such as the new one being opened in Teheran, do not aim to make a profit, but only to cover their operating expenses. Others, such as the Jordanian or Bahraini banks, strive to pay their shareholders a dividend and their depositors an annual profit that will make them competitive for deposits with commercial banks.

Some of the banks promise to grow into substantial institutions. While the first Islamic banks that were opened in Egypt on a local level in the early 1960s remained focused on neighbourhood and city-wide operations, today's Islamic banks are bigger and broader in their scope. Some of them are starting with capital of nearly $50m or more. The Nasser Social Bank of Egypt, one of the oldest Islamic banks, boasts a balance-sheet total of over $150m. The Islamic Development Bank has a subscribed capital of about $1bn. In most cases the banks are owned and operated by the private sector, with governments taking only minority shareholdings in some cases.

The banks all operate on the same basic profit-sharing principles, but their terms vary in some cases. Some banks only accept deposits of six months or more, others insist on one year, while others still will take one-month deposits to encourage business during their first year of operation. Some banks also have a minimum deposit amount such as the KD1,000 minimum for Kuwait's Islamic Bank, known as the Kuwait Finance House, which attracted 3,000 accounts in its first two weeks of business earlier this year. It reckons that depositors will receive the equivalent of a 6 per cent return on their deposits, which is also what the Jordan Islamic Bank expects. After a few years Jordanian Islamic bankers expect a 10 per cent return on investment.

Rami G. Khouri

Gulf

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This strong personal flavour in Gulf banking has been a major contributing factor in the establishment of locally-owned banks. The large Kuwaiti banks, in spite of their capitalisation and shiny premises, remain in essence personal organisations of groups of Kuwaiti businessmen.

All save one of Bahrain's 18 banks in 1978 made a profit, even though the volume of business conducted by a majority of them was small. One reason for their profitability is certainly the fact that a smaller volume of business means that a high degree of personal service can be assured.

In no Gulf country has the personal element in banking practices been allowed to develop and flower more than in the United Arab Emirates. Outsiders and formally trained central bankers may scoff at the fact that there are 52 banks with more than 400 branches in the seven states which make up the UAE, and mutter about "the world's most over-banked country." The stricture has much less force in local eyes.

First, the UAE is not really one country; rather, it is seven separate business communities. Within each business community there are in most cases a number of sub-communities of merchants. Each of these smaller groupings likes to have its own bank.

The fact that there may be considerable social capital, as well as some financial profit, to be made out of setting up one's own bank in company with a few fellow merchants in the environment of the UAE, strengthens the argument rather than weakens it. In the small communities of the UAE, with their well-developed mercantile traditions and the strong personal flavour of business life, depositing one's capital in one's own bank makes a great deal of sense, no matter how strange it may seem to foreign eyes.

But the price the banks pay for their personal ties with their clients is often the collecting of dubious loan portfolios secured upon empty, and in some cases incomplete, high-rise apartment and office buildings. Both foreign-owned and local banks in some Gulf countries have them. In the heady days of the construction boom, loan applications supported only by personal criteria could hardly ever be turned down. Significantly, few of the long-established foreign banks hold potentially bad property loans.

The personal element makes it more difficult, even impossible, for banks to foreclose on loans for speculative building which have gone bad, and for which their customers even have in some cases difficulty in meeting interest payments. It might be marginally better for a bank to show a loan secured against property on its balance sheet than to foreclose and take the almost valueless property on to its own books as well as setting off a chain reaction of bankruptcies.

Probably a more compelling reason why Gulf banks do not foreclose is that to do so would be completely at variance with the nature of banking in the Arabian peninsula.

John Townsend

Flow of aid stays on a plateau

TRYING TO measure aid flows from the Arab oil States to other developing countries is a confusing business. Donor countries define aid in different ways, some countries seem better at accounting than others, and the somewhat complex and occasionally secretive way in which Arab States disburse aid does not make for easy comparisons.

But relying on statistics collated by the OECD using consistent definitions of aid it seems that six years after the 1973/74 oil price rise the Arab States' aid disbursements up to the end of 1978 stayed on the lofty plateau of about $5bn a year which they reached in 1975. The three biggest aid donors, Saudi Arabia, Kuwait and Abu Dhabi, can *claim* very impressive rates of aid disbursement as a proportion of GNP compared with the industrial countries. (The statistics published in the accompanying table do not necessarily tally with those the aid giving states publish individually).

Aid given by the Arab oil States tends to be handled rather less formally than is the aid provided by the industrial countries. The national aid funds of Saudi Arabia, Kuwait, Abu Dhabi and Iraq disburse a relatively small amount of these countries' aid programmes: the rest is handled by their Ministries of Finance, usually on an ad hoc basis, following instructions from the Foreign Ministry, the Head of State or someone else in authority.

Many of the payments the Ministry of Finance makes are direct subventions unrelated to projects, paid to the Arab States confronting Israel. The size of these subventions can vary sharply from year to year, according to circumstance — which accounts, for example, for the sharp dip in Kuwait's annual aid figures in 1976, the result of a temporary cutback on aid to Syria during the Lebanon civil war.

Arab aid differs from Western countries' aid in several other ways. It is not tied to the purchase of goods or services from the donor country — mainly because apart from oil, which the developing countries are buying from OPEC anyway, the oil States rarely have anything else to offer. Technical assistance paid for by the oil States is normally provided by *consultants* or aid *personnel* from another country or from a UN organisation rather than by the nationals of the aid-giving country, since Arab aid-giving States rarely have the technical skills available.

Most projects in Arab States' aid programmes are co-financed with other Arab funds or with Western or UN organisations, as few Arab organisations are geared up to carry out full feasibility studies of projects—the Kuwait Fund for Arab Economic Development being a significant exception. The Arab aid-giving organisations tend to co-operate very closely with the exception of the Iraq Fund for External Development, which stays aloof.

These factors mean that a higher proportion of Arab aid allocations is actually disbursed outside the donor country than is the case with aid given by industrial countries, much of which goes to domestic industry and to paying for technical personnel who are nationals of the aid-giving country. But it seems likely that as Arab oil States develop industry themselves they too will be inclined to link aid to the purchase of their industrial products — though this has yet to happen in the case of, for example, Kuwait's existing fertiliser output.

It is possible to pick out several important trends in Arab aid-giving over the past few years. First, there is a *strong* preference among the donors for aid related to projects rather than straight balance of payments or budgetary support, or programme aid. Whereas in the first year or so after the oil price rise there was a tendency, particularly by Abu Dhabi, for loans and grants to be made without rigorous control of what they were to be spent on, the trend is now strongly towards lending only for clearly defined projects.

NET DISBURSEMENTS OF AID BY ARAB STATES 1973-77 $m

	1973	1974	1975	1976	1977
Algeria	25.3	46.9	40.7	53.6	46.7
Iraq	11.1	422.9	215.4	231.7	53.4
Kuwait	345.2	621.5	975.1	614.2	1,441.0
Libya	214.4	147.0	261.1	93.6	109.4
Qatar	93.7	185.2	338.9	195.0	117.6
Saudi Arabia	304.9	1,029.1	1,997.4	2,407.0	2,373.0
UAE	288.6	510.6	1,046.1	1,602.0	1,261.8
	1,383.2	2,963.2	4,874.7	5,197.2	5,305.4

Source: OECD.

Difficulty

Many countries have difficulty in identifying worthwhile projects and drawing up proposals for aid and so may be suffering as a result, but in some countries the Kuwait Fund is providing technical assistance in planning and project formulation. The Arab aid organisation which probably suffers most from this problem is the Arab Bank for Economic Development in Africa (ABEDA), which only deals with black African countries — those with the greatest difficulty in drawing up projects.

Whereas project aid is usually only paid over as the project is implemented, lump sum programme aid can easily be diverted to the wrong ends. Since GODE—the General Organisation for the Development of Egypt put together by Saudi Arabia and three Gulf states—was directed mainly to payments support in 1977, instead of going to projects as had been intended, Saudi Arabia and other aid donors have been especially chary of programme aid. Now the Kingdom likes to see a recipient country obtaining the IMF's seal of approval for its economic policies before it will part with any programme aid.

The trouble with this apparently high - minded approach is that many countries get into payments difficulties as a result of large-scale project aid funding development — Sudan being a good example. It could be argued that programme aid ought to be given more freely as a concomitant of project aid.

Ironically, though, the bulk of the oil States' disbursements consists of programme aid. This is partly because project aid is much slower to disburse, but *mainly because* the largest part of these States' aid consists of subventions to the Arab confrontation States which are loosely tied to projects, if at all. The Baghdad summit of November 1978 agreed on stepping up payments to Syria, Jordan and the Palestine Liberation Organisation, but the financial burden on the oil States will probably be offset by the cutting of the confrontation States' subventions to Egypt, following its peace treaty with Israel.

It is very likely that with oil prices rising by more than 60 per cent on average this year developing countries will be asking for special programme aid to help cushion the shock of the increase. After the 1973-74 increases a special $200m Arab fund for Africa was set up and disbursed, while another OPEC aid organisation, the OPEC Special Fund, also provided programme aid for needy countries. But the OPEC States are determined not to sell oil to developing countries at below the market price; some, like Iraq, are prepared to offer them good credit terms, however.

The second trend that can be seen in Arab aid giving is the growing maturity of the aid organisations which were founded after the 1973-74 oil price rise. In general they have now overcome their teething troubles and are establishing themselves as experienced aid-giving concerns. The Islamic Development Bank (IDB), based in Jeddah, is not strictly an Arab organisation since its 41 Moslem member states are spread from West Africa to the Far East, though its biggest shareholders are Arab. The IDB has now committed about $450m and is putting into effect its ideas on trade financing and profit-sharing based on Islamic principles. Its activities are fully described in the articles on Islamic banking in this survey.

ABEDA, based in Khartoum, had committed $282m by the end of 1978, about half its paid-up capital. Disbursements stood at about $66m, reflecting the normal problem of slow project implementation as well as slow identification which all aid funds find difficult to overcome.

The OPEC Special Fund, whose biggest shareholders are Arab, had committed $927m by the end of 1978 and disbursed $372.4m. Of the sum committed, *some* $526m went in loans, both project and programme, and the rest in international contributions.

A third trend is that as aid donors gain experience, they begin to question the efficiency of their aid-giving organisations and the effectiveness of their aid. In a small society like Kuwait where aid-giving has been going on for more than 20 years, the relationship between the Kuwait Fund and the Ministry of Finance appears to work smoothly. But it is less clear how efficient Saudi Arabia and Abu Dhabi are.

There is undoubtedly scope for tightening up and rationalising the *prolix* administration of Saudi aid. Significantly, in Abu Dhabi the Abu Dhabi Fund for Arab Economic Development has gradually taken over the management of *many* loans originally concluded on a government to government basis by Sheikh Zayed, Ruler of Abu Dhabi and President of the United Arab Emirates.

Criticism

It is quite understandable that Arab States should view aid as an instrument of foreign policy. They must—after all—defend themselves against criticism in the developing world at the disparity between average income per head in the oil States and in other developing countries.

But it does appear that there was a degree of political rivalry behind the crisis that *for* a year paralysed the activities of one of the most successful multilateral Arabs funds, the Arab Fund for Economic and Social Development (AFESD), which is based in Kuwait. From the end of 1977 until this summer the AFESD was not able to make new loans because its shareholders refused to increase its capital or allow it to borrow commercially. The fund, which had been highly dynamic in lending and in making development studies, had already committed KD 295.3m while its paid-up capital stood at KD 131.9m.

In order to continue lending at this rate the fund either had to borrow commercially or persuade its shareholders to speed up the paying in of the subscribed capital. But the shareholders refused to allow either. The most influential, Saudi Arabia and Kuwait, felt that the AFESD was too involved in lending to individual States, thus competing with their own national funds, and was not lending enough to inter-Arab projects, as was its brief.

This was true. The fund found it hard to identify and get going good inter-Arab projects. Some of the shareholders disliked Dr. Saeb Jaroudi, the Lebanese president of the fund.

More than a year's stalemate was finally broken in April this year when Dr. Jaroudi decided to resign and the shareholders agreed to speed up paying in the AFESD's capital and fill the KD 29.4m gap between the subscribed and the authorised capital. This will mean that the fund will have KD 400m by 1982 instead of KD 370.4m by 1984. But as the fund will still not be able to borrow commercially it will have to lend at a much slower rate than before. Dr. Jaroudi has been replaced by the former Syrian Finance Minister Dr. Mohammed Imadi.

James Buxton

No centre of gravity

SO MANY cities claim to be financial centres today, not least those in the Middle East, that the qualification must be handled with care. Kuwait and Bahrain are the two centres in the region which rightly merit the description, since they too have evolved the necessary banking activities, money brokers, instruments for investment and so on, and a central bank or authority to control the activities of these various institutions.

Cairo and Amman have developed steadily on a local rather than regional level while the United Arab Emirates got off to a flying start but did not fulfil the hopes engendered.

As far as the Euromarket is concerned Kuwait is the most diversified, sophisticated and promising. *This is true despite* two drawbacks—the fact that short-term money market instruments were only recently introduced and that the banking scene is dominated by the virtual monopoly of the six *commercial* banks. There seems little reason for the Kuwaitis to change this state of affairs. The shareholders of the banks have grown accustomed to high profits and they would not wish to see any fall in the value of *bank shares which* remain high when set against the bank's earnings.

Where the Kuwaiti banks—but even more so the investment companies such as Kuwait Foreign Trading Contracting and Investment Company, Kuwait International Investment Company and Kuwait Investment Company — have proved successful is in developing the Kuwaiti dinar (KD) bond market. *Last year* saw a record number of new issues but there have been hiccups recently because of the sharp rise in KD interest rates. Short-term interest rates reached 50 per cent last January before crashing down to 8 per cent—not the kind of erratic movement calculated to instil confidence in the long-term prospects of this sector.

Liquidity posed no problem last year when the dollar was weakening and investors were rushing into strong currencies, among which the KD can be counted. Interest rates were both low and stable and the Kuwaiti investment houses argued that for the investor a KD bond was a good proposition.

Though the manner in which the value of the KD is calculated is not known exactly, the currency has tended to appreciate against the dollar but more evenly than has been the case with the Deutsche Mark (DM) or the Swiss franc. Thus the borrower was better served than if he had raised DM or Swiss franc denominated bonds.

However, large scale conversion of KDs into dollars after the Carter package last November led to an sharp and very erratic increase in KD interest rates. Kuwaiti houses were quick to point out that

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Hurdles face regional investment

THE KENANA sugar project in Sudan is now a reality. Due to start production at the end of the year, it will help make Sudan a sugar exporter to the Arab world. Everyone who visits the site 160 miles south of Khartoum is deeply impressed by the scale of the project and the relatively short time it has taken to create so much from nothing.

Kenana represents both the best and the worst about intra-Arab investment. The bulk of the equity and loan capital has been provided by Arab State and private investors, Arab aid funds and by a pan-Arab investment concern, the Arab Investment Company. In a region where projects are talked about more often than they are implemented it is one that is now being brought to fruition, in face of the considerable difficulties of operating in Sudan.

The fact that Kenana is running nearly two years behind its original schedule and that it is, at about $900m, costing more than five times the original estimate, is only partly the responsibility of the Arab investors. For them the scheme often has been a nuisance, constantly requiring more finance and raising nagging doubts about its viability.

Yet the investors—mainly Kuwaiti and Saudi—have hardly allowed Kenana a smooth ride. Funds have almost invariably been paid up late, putting Kenana in a poor bargaining position on contracts; restrictions on the company's executive powers have made for cumbersome decision-making; and the shareholders have not always all turned up for the meetings where their presence was required if binding decisions were to be made.

Kenana has been a valuable but chastening experience in the somewhat patchy story of intra-Arab investment. The investment of the oil States' financial surplus within the Arab world is an ideal which they all believe in, in order to "do away with these unsatisfactory relationships that have made us a mere source of finance for economies stronger than our own," as Mr. Abdul-Rahman al-Atiqi, the Kuwaiti Finance Minister and a leading proponent of intra-Arab investment, has said.

Given the strength of pan-Arab feeling there theoretically can be no worthier or safer place for the rich Arab States to invest than in other Arab countries, and since the 1973-74 oil price rise a substantial amount of the oil States' surplus has been invested in other Arab countries—though the amount is dwarfed by the proportion invested in the West.

There is a fair degree of disillusion both in the richer and the poorer Arab States about intra-Arab investment in practice. The rich States complain about the poor States' lack of receptiveness to investment; they claim that legislation designed to attract investment is in practice often complicated and contradictory; that investment projects are either deliberately or unintentionally held up by bureaucratic obstruction; and that schemes which have cleared these hurdles prove difficult to get under way because the physical infrastructure in the poorer countries is often so weak.

Revived

A lot of these problems reflect genuine difficulties in the poorer Arab States. The concept of investment and private enterprise has had to be revived after years of socialism in countries like Egypt and Syria which has meant reversing attitudes and overcoming entrenched positions — a process that can take years. There may often be some resentment in the poorer countries at the "nouveau riche" investors of the Gulf.

The investing countries do not always aeem prepared for the difficulties; frequently accustomed to relatively simple portfolio investments in the West or to high returns on property and other business ventures at home, they are not used to the hard slog of investment in other Arab countries which may often yield only small profits. The best local manpower in the oil rich States tends to be involved in banking and money management; far fewer people have experience of project management, and with good manpower generally in short supply there is little incentive to acquire it.

At the end of the decade during which intra-Arab investment has got under way on a large scale it is possible to draw up a kind of league table of investment outlets in the region. Apart from the Gulf States themselves, Tunisia, Jordan and Morocco, with their relatively efficient administrations, their unambivalent attitude to private enterprise and their convenient size and compactness, come at the top, and are now absorbing a relatively large amonnt of investment.

In the second division comes Sudan, wbere investment is officially welcome but is bampered by low administrative efficiency and the weak transport system: North Yemen, wbere a surprising amount of investment is going ahead despite serious political instability: and Egypt, where investors were beginning to overcome the problems of the colossal bureaucracy before President Sadat's peace treaty with Israel.

Syria, once thought of as a bright prospect for the Arab investor, bas virtually dropped out of the league table altogether. Investors have become disillusioned with what they regard as tbe failure of the Syrian bureaucracy to match the promises that tbe Damascus Government bas given. The Kuwait Real Estate Investment Consortium, whicb invests in property around the Arab world, bas closed its office in Damascus.

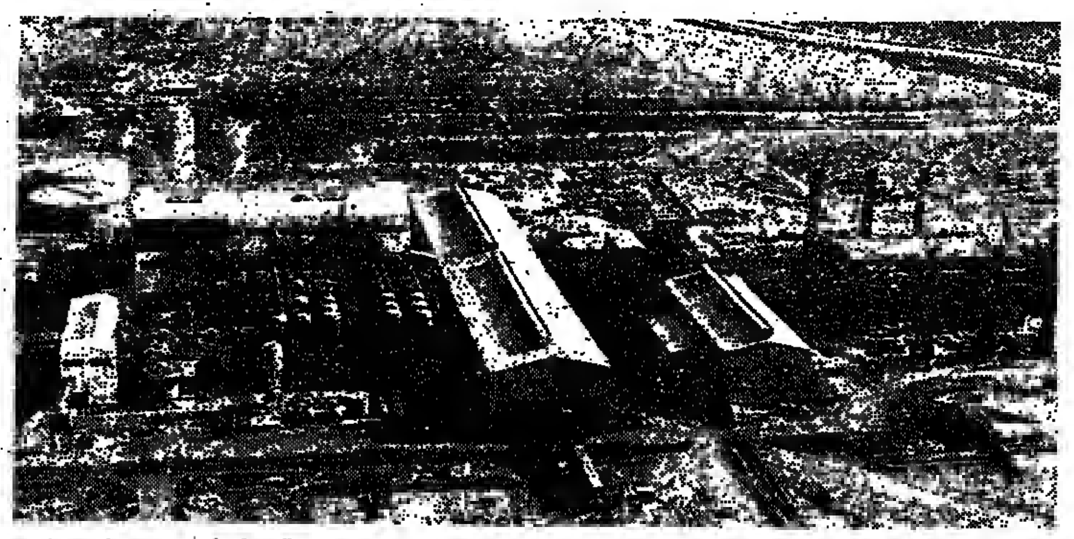
In view of the difficulties the amount of Investment that Is actually going ahead is impressive, even taking into acconnt the fact that intra-Arab investment tends to be publicised, while investment In the West usually Is not. Apart from private property holdings by rich Arabs in such countries as Egypt, Lebanon and to a lesser extent Syria, the main fields for intra-Arab investment are property, hotels, transport construction and agriculture. Alongside the glamorous schemes involving large State investment corporations are a number of more discreet joint ventures often just involving one or two rich Gulf Arabs and a local partner.

As yet it is too early to say what effect the Baghdad sanctions will actually have on investment in Egypt which bas probably absorbed most Arab investment in absolute terms. But the indications are that just as there is no question of cutting off aid for projects already in progress, so investment projects will continue and may well absorb more funds than befnre as they grow in size.

The most active State in investing in the rest of the Arab world is Kuwait. Relatively small Kuwaiti investors bave financed property deals in the lower Gulf (alongside some larger institutions) and they often own property in Egypt, either for their own use or primarily as ao investment. But most large-scale investment outside the Arabian Peninsula is in the bands of a few large Kuwaiti concerns wbose ownership overlaps.

The most importaot is the Kuwait Foreigo Trading Contracting and Investment Companp (KFTCIC) whose KD 25m capital is now 85 per cent Government-owned. KFTCIC manages the portfolios of other clients, mainly the Government, in addition to bandling its own funds. It holds and manages the Governmeut's substantial stake in the Kenana Sugar Company, where it bas been an active and often critical sbareholder. It is responsible for Kuwait's stake in the Sumed pipeline in Egypt. In Sudan it also bas active subsidiaries in livestock, road transport and construction, while It has an investment company in Egypt which is involved in several joint venture projects.

KFTCIC also bas joint venture projects In Morocco, Mauretania, Jordan, Oman, Syria and Iraq, witbin the Arab world. It has a stake in tbe Kuwait Real Estate Investment Consortium (KREIC) In which the Ministry of Finance and other State and privately owned Kuwaiti institutioos also have boldings. KREIC bas schemes under way, or is attemptiog to get them going, in Egypt, Morocco, Tunisia, Saudi Arabia and North Yemen. For a variety of reasons it bas given up trying to operate in Syria, Sudan and Jordan. It occasionally facea problems because property investment in foreign countries can often arouse a special kind of jealousy.



Aerial view of the Kenana sugar factory, the biggest project of its kind in the Middle East which opened in April this year

Hiltons

Other companies with big investments in the Arab world include the Kuwait Hotels company wbich bas stakes in Hiltons in several Arab cities including Khartoum, and Artoc, whicb has a number of operations in different countries. Gulf Fisheries has a small stake in Kenana and bas a number of other interests in Sudan, as well as investments in property and Meridien hotels in different countries. There are Kuwaiti investments of one kind or another in all Arab conntries identified except Algeria, though involvement io Iraq and Libya Is minimal.

Other oil states cannot really match the Kuwaitis for the scope and sophistication of their investment in the Arab world. Both Saudi Arabia and the United Arah Emirates began to have large financial surpluses much later than Kuwait and each has had, at least until recently, ample Investment opportunities at home. The only Gulf state that is as outward-looking as Kuwait is Dubai (in the UAE) but it concentrated on investing at bome rather than abroad.

Again, both the UAE and Saudi Arabia have big private involvement in Egypt, mainly in property, but there are also a number of other joint venturea in sucb fields as transport aod road haulage, while there is a similar pattern of joint ventures in Sudan. Prince Mobammed bin Faisal of Saudi Arabia bas an agricultural project at Damazin in Sudan wbich is gradually building up in size.

Apart from multi-state Arab organisatioos formed with specific purposes, like the Areb Petroleum Investmeot Corporation (APIC) wbich invests in oil and gas installations, the only general purpose pan-Arab investment concern is the Arab Investment Company, based in Riyadh. With 14 member-states now (Egypt baving been suspended) it has a number of projects in operation but a large proportion of its funds bas gone into the Kenana project as Its costs bave escalated. AIC is not a soft loan facility tbough it is not as ruthlessly profit-orientated as a private corporation.

One institution bas been established to overcome the problems that the Arab investIng countries tend to complain abont most. It is the Inter-Arab Investment Guarantee Corporation, set up in 1973 and based In Kuwait. It was initially slow to get under way until Saudi Arabia joined io 1977 and boosted its capital. It now bas 18 members aod with a capital of KD 21.5m can provide insurance cover for direct investment, loans, portfolio investments aod construction equipment against the risks of confiscation and nationalisation, transferability of funds and the possibility of war and revolution. It is also moving into export guarantee insurance to help nascent Arab exporters.

With most of its operations In Egypt the IAIGC bas not expelled Egypt from its membership. By the eod of last year the IAIGC had issued KD 20m worth of guarantees, and expected to fulfil its quota of KD 17m this year, being allowed to go up to KD 107m (five times capital) over a five-year period. A major constraint on the IAIGC is its small capital and tbe fact that no guarantee operation can exceed 20 per cent of its capital. Tbis means that it can only go up to KD 4.3m in Its coverage of any one project (though it can insure part of a project). The IAIGC has been relatively slow to catch on but is now trying to sell itself more vigorously. The main problem Is that It cannot offer protection against bureaucalic delay and obstruction, whicb often masks political opposition, and is one of the worst constraints on intra-Arab investment.

James Buxton

No centre

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the western offshore banking units (OBUs) in Bahrain had been borrowing KDs cheap to buy dollars. Evidence suggests that the OBUs were in good company—none other than the Kuwaiti houses and many private individuals were doing exactly the same thing.

But the quality of the borrowers tapping this sector has improved, the latest arrival being a prime Japanese company, Mitsubishi Heavy Industries. The volume of bonds has also risen, though it is not yet clear whether last year's record volume will be bettered in 1979.

The secondary market, meanwhile, is developing but much still rests on the shoulders of the Arab Company for Trading Securities (ACTS) which remains the only real market maker in KD bonds. As the number of holders of KD bonds slowly grows, especially outside the Gulf area, the number of market makers is bound to increase. Less than $1bn of KD denominated bonds are believed to be held outside Kuwait.

In Bahrain the emphasis remains on foreign exchange activities. The Bahraini-denominated bond market has been dormant for the past 12 months; there has not been a single issue. Bahrain is constrained by the behaviour of neighbouring Kuwait, which has taken steps to ensure that the OBUs are no longer in such a strong position to borrow KDs and lend them back to Kuwaiti borrowers. In addition, as the number of new contracts for building in the area tend to shrink, the npportunities for financing diminish.

The increase in oil revenue this year is unlikely to improve prospects very much. While the heavily capital-absorbing countries will be able to increase spending rapidly, the lower capital-absorbing countries (Kuwait and Qatar In particular) now perceive little value in attempts to keep spending up at a high rate as their economic planners, encountering various development constraints, are uncertain abont investment in new industries.

Francis Ghilès

SAUDI ARABIA

Caution over riches

WHEN TWO weeks ago Saudi Arabia announced its intention of raising output above the official ceiling of 8.5m barrels a day for its main fields, the reason given was that it needed finance for its development programme.

The explanation seemed designed to placate other members of the Organisation of Petroleum Exporting Conntries. The prime motive, it was assumed, was to stabilise the new price structure set last year. The fact is, however, that the Kingdom is very cautions in appraising its riches in relation to long-term development.

It is difficult to make any predictions about the income or the surpluses of any OPEC member. For Saudi Arabia this is particularly so because it is not known whether it will produce at 9.5m b/d for any period of time beyond the third quarter of 1979, regardless of the chances of a further upward revision of prices next year. But at the basic price of $18 per barrel for Arabian Light, the rate of 8.5m b/d from the main Saudi fields alone would give a revenue of rather more than $50bn in 1979-80. In addition, there is the income from the Nentral Zone fields, sales of natural gas liquids and the added value of products refined at Ras Tanura.

Total oil revenue for 1979-80 should verge on $60bn even if there is no further price increase and the Kingdom reverts after the third quarter to the 8.5m b/d limit imposed on the Arabian American Oil Company's output. As it happens, total Saudi expenditure for the fiscal year that began late in May has been set at SR180bn ($47bn) to which must be added another SR29.7bn ($8.75bn) in respect of autonomous public agencies.

In effect, appropriations more or less cover anticipated oil revenue—which was estimated before the recent price increases. Last year it covered 86.9 per cent of the total with the balance coming from income from foreign assets, customs dues and taxes on foreign companies.

In announcing the new Budget the Ministry of Finance and National Economy issued a statement revealing expenditure to have exceeded revenue in 1978-79 by SR14.25bn ($4.27bn). The deficit, it was said, was made up from the State General Reserve although it is not clear whether this involved drawing upon any of the Kingdom's foreign assets.

Thus, against all expectations, Saudi Arabia in the fourth year of its 2nd 1975-80 Five Year Plan—that was originally scoffed at by many commentators as ambitious and grandiose—was in deficit. By then spending of about SR 460bn would have approached the targets of nearly SR 500bn set out in the development programme. Inflation was very much higher than the 16 per cent factor built into the plan's projections but nevertheless the performance has been impressive.

Over the past two years Saudi revennes and expenditure have come into balance in a remarkable way. Since the 1979-80 budget was drawn up, the price of the Kingdom's main variety of crude oil—at the floor of the two-tier price structure agreed upon last month in Geneva—has risen by 23 per cent.

At the best of times and in all respects the Saudi Government is profoundly cautious. The official line is still that in the long-term the Kingdom is not a surplus state and in the long-term all excess revenue will be required for the Kingdom's development.

Nevertheless, despite the size of accumulated foreign assets that amounted to at least $59bn at the end of 1978 policy has been to cover expenditure from current revenue. After four years of substantial but falling surpluses in the wake of the 1973-74 price explosion, the Kingdom seemed almost alarmed to find itself in equilibrium.

Saudi Arabia remains its habitually cautious self. However, in the foreseeable and probably indefinite future—given the prospects for supplies—*it will not suffer any liquidity* problems. Despite its ability to absorb and the enormity of its *hydrocarbon-based* industrialisation plans, together with the associated infrastructure, the prospect once again is for a steady increase in the Kingdom's accumulated surplus. Its present nature and deployment is discussed in detail in the article on surpluses on Page 2.

Rash

It would ba rash to predict how long and to what extent Saudi Arabia will remain a surplus state of its present proportions. For the time being it remains a passive monster on the world's financial markets despite the size of its official reserves which are handled by a host of intermediaries under SAMA's direction.

Policy is opposed to the internationalisation of the Saudi riyal, though it is now one of the currencies making up tha IMF's SDR basket. At the same time the pricing of contracts in riyals has created a market for the riyal that has been a major preoccupation of Bahrain's off-shore banking system.

As a capital market, Saudi Arabia is still at a very embryonic stage. SAMA took the initiative in 1975 in establishing the London-based Saudi International Bank which is now in its third year of operations and took a 50 per cent stake in it. The 24 per cent shares held by the National Commercial Bank and the Riyad Bank give overall Saudi majority control while the balance of the equity is owned by foreign partoers.

The main objective was to gain experience in the international markets and SIB is in no way a vehicle for tha exploiting of surplus Saudi assets, public or private.

Faced with the demand for riyals and the challenge of Bahrain, SAMA allowed the Riyad Bank to set up an OBU joint venture with Crédit Lyonnais and has authorised the National Commercial Bank to start operating there. For its part, the latter has begun to figure among the Arab institutions leading and co-managing syndicated loans and Eurobond issues.

However, SAMA has discouraged foreign riyal issues—preferring to limit them to Arab governments or state-sponsored institutions while insisting that Saudi banks should be involved in co-managementship and contribute at least 50 per cent of the funds.

SAMA has also facilitated the borrowing of riyals within the Kingdom itself—but only on the assurance that the credit is used solely in the country. Increasingly, Saudi banks have been engaged in the syndication of performance bond and advance payment guarantees for international companies undertaking contracts in Saudi Arabia.

The commercial banks have also begun in a small way to extend *medium*-term loans for projects within the country itself.

In this respect SAMA recognised a gap in the market by giving the go-ahead for the establishment in 1976 of the Saudi Investment Banking Corporation, which is 65 per cent nationally and 35 per cent foreign-owned. Set up as a merchant bank it is now operating successfully but has so far failed—as was the intention—of acting as a catalyst for the creation of other financial institutions.

As far as finance for internal development in the private sector is concerned, the Saudi scene has in the past few years been very much dominated by tha Saudi Industrial Development Fund and the Real Estate Development Fund, both offering credit with only a 2 per cent administrative fee and concessionary repayment terms together amounting to substantial subsidies.

Since it started lending operations five years ago SIDF would have committed more than SR10bn for industrial projects and SR15bn for electricity generation, the bulk of which has been disbursed. From its foundation in 1974 to the end of 1978 the Real Estate Development Fund charged a mere 2 per cent on easy repayment terms, worth no less than SR 33.8bn.

The "Saudi-isation" of the banks operating in the Kingdom—a goal long pursued by SAMA—has now all but been achieved with only details of the agreement with Citicorp waiting to be finalised. Over the past few years the British Bank of the Middle East, the Banque de l'Indochine, the General Bank of the Netherlands, the National Bank of Pakistan, the Banque du Liban et d'Outre Mer and, finally this summer, the Arab Bank have all conceded 60 per cent local majority ownership and accepted Saudi boards of directors, while continuing to run operations under management contracts.

Apart from creating a stronger capital base the result should be a more rapid extension of the banking system outside the main urban centres to the rural areas.

For a country that had almost no banking system 25 years ago the expansion has been remarkabla and orderly, under tight supervision by SAMA. The business of the commercial banks remains predominantly retail with trade accounting for rather more than a third of credit advanced and construction more than a quarter.

Last year claims on the private sector rose by 42 per cent to SR 14.4bn, a rapid growth compared with the marginal rise of the previous year when a squeeze was applied. Demand deposits grew by 33 per cent to SR 27.94bn. Foreign assets were up 40 per cent at the end of last year to SR 13.58bn—rather more than double foreign liabilities. In commercial banking terms, too, Saudi Arabia is very much a surplus state.

Richard Johns

KUWAIT

A danger of complacency

THOUGHTFUL KUWAITIS considering the future of their State—the world's richest per head of population — express concern at the ever-growing money mountain in their midst. In no sector is this concern about the future more justified than in commercial banking.

The State's six commercial banks, flush with liquidity and on paper numbered among the world's richest banks, are entering a period in which profitable lending opportunities, both domestic and international, seem likely to be scarce. The world at large is unlikely to move out of its economic recession, especially after the latest OPEC decisions and in any case Kuwait as a financial centre is facing competition from Bahrain's offshore banking sector and potential competition from Saudi Arabia.

Kuwait's bankers and finance managers have long prided themselves on their prudence, caution and conservatism. It is possible that these classic banking virtues may have bred a certain complacency, and that the erstwhile mercantile flair of Kuwaiti bankers is taking second place to a belief in bureaucratic controls.

Yet the average Kuwaiti investor finds it difficult to believe that all is not for the best in the best of all Kuwaiti worlds. Conditioned to the presumption that Kuwaiti banks and financial institutions are leaders in the Arab world, the Kuwaiti investor sees the 1978 profit of the National Bank of Kuwait, for example, reaching KD 7.5m, up by over KD 2m from the KD 5.06m of 1977. The Commercial Bank of Kuwait made a profit of KD 4.92m in 1978 against KD 4.18m in 1977. The Al Ahli Baok made a profit of KD 3.025m in 1978, announcing in its report for the year that it intends to raise its capital from KD 9m to KD 12m. Other leading financial institutions are also increasing their capital.

In addition to higher profits on his bank shares, the Kuwaiti investor is also gratified to see that the Kuwait Stock Exchange values these shares at a higher figure than ever before. Stock market valuations in Kuwait put tha National Bank of Kuwait, the Commercial Bank of Kuwait, the Gulf Bank and the Al Ahli Bank among the world's giants, on a par with the market value of the biggest U.S. banks.

If a cynical foreigner points to the narrowness of the Kuwaiti stock market and the fact that only Kuwaiti citizens may buy and sell shares, with the implication that the market is fragile, he is reminded that the Government of Kuwait came to the rescue of speculators when the 1977 boom burst and doubtless will do so again when necessary—a further element in the artificiality of the Kuwaiti stock market.

The Kuwaiti investor also points with pride and a certain self-satisfaction to the big increase in business on the inter-

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BAHRAIN

Intense activity

OF ALL the Arab states Bahrain has probably shown the most imagination and drive in developing as a financial centre since the 1973/74 oil price rise. The amount of financial activity centred on this little island is out of all proportion to its financial resources (it is the region's smallest oil producer) and the size of its economy.

The initial aim of the offshore banking units (OBUs), which started operating in late 1975, and are at the core of Bahrain's international financial operations, was to attract the cash surpluses of the neighbouring oil States. The accumulation of surpluses in Arabia suggested that there was room for an offshore financial centre about half-way between Singapore and London, and Bahrain was an obvious place for it because its communications are so good and the island's educational base is relatively high.

The package which the Bahrain Monetary Agency (BMA) set before bankers was so simple that it covered only one side of a sheet of paper; banks could set up a full branch without corporation or personal taxes or exchange control. They were only forbidden to handle personal or corporate accounts and other forms of financing for local concerns and individuals (except with the BMA's permission).

There are now 50 OBUs in operation in Bahrain and they handled assets totalling about $22.75bn at the end of May, 1979. Bahrain is not really an outlet for the official surplus of the oil States, little of which technically comes to the Gulf, but it handles the surplus of the private sector in the oil States, especially that of the eastern province of Saudi Arabia—last year to the tune of about $12bn.

But about a quarter of the OBUs business is in local currencies, primarily the Saudi riyal and to a lesser extent the Kuwaiti dinar. Because of the rigidity of banking practice and regulation in Saudi Arabia and Kuwait, the OBUs have taken local currency deposits and have made local currency loans to customers in these countries—such as construction companies in the Kingdom which need riyals to pay their subcontractors and labour force.

Rivalries

This is the aspect of the OBUs' operations that produces the most excitement and the most difficulty, partly because of the underlying political rivalries of the region, partly because of the movement of the dollar and partly because of the limitations of the regional currencies.

The supply of these currencies is dictated largely by the spending of the governments of the major oil states—Saudia Arabia, Kuwait, Qatar and the UAE—so a great deal depends on the rate at which they convert the dollars they receive for their oil into local currencies, since the private sector of these countries needs to convert their local currencies into dollars to pay for imports. If Saudi Arabia is slow in spending its revenues, as it has been intermittently over the past year, this can cause shortages of riyals which affect Bahrain.

A riyal shortage occurred last November when the rise in the dollar after the Carter stabilisation measures coincided with the chaos engendered by the move by the Saudi Arabian Monetary Agency (SAMA) move from Jeddah to Riyadh. The OBUs face intermittent problems with the Saudi riyal and as the currency represents by far the most important part of the OBU's regional currency operations and about 20 per cent of total business, the fear lurks in Bahrain that SAMA could at any time completely alter the rules of the game under which Bahrain's OBUs operate.

But the two indigenous Saudi banks—the National Commercial and the Riyad—are now both represented in Bahrain—the former opened in May and has become very active in the market—and this gives Saudi Arabia an additional reason for wanting to see the OBUs prosper. Whether the Saudiisation of all the banks in the Kingdom, which involves a big increase in their capital, will enable them to match more of the facilities the OBUs provide remains to be seen.

The OBUs also ran into complications with Kuwait last winter. The November, 1978, dollar package combined with the nervousness of the region about the troubles in Iran caused extra demand for dollars. The supply of local currencies did not match the demand for dollars and short-term interest rates shot up as KDs became short.

The Central Bank of Kuwait chose to interpret this as evidence of the unhealthy activities of the OBUs and redefined liquid assets for the Kuwaiti banks to include deposits of up to one month and decreeing that these were to be kept in Kuwait. This was rather a blow to the OBUs, while some bankers in Kuwait have privately regretted the move as further reducing their flexibility. Though Bahrain bankers have suggested that Kuwait has been trying to put them out of business the more thoughtful recall that KDs in Bahrain last year only accounted for about 4 per cent of total assets.

Crucial to the success of the OBU operation is great care in the choice of banks which are licensed, especially as there no reserve requirements and rules are few. The BMA insists on granting licenses only to top quality internationally known banks, and it keeps informed of their goings on through monthly reports and word of mouth, which is not difficult in Bahrain.

With the higher oil price spending in the Gulf should pick up again. The indications are that the setbacks to Saudi riyal and KD business at the turn of the year have been absorbed and the OBUs' assets which stood at $23bn at the end of 1978 have pulled up from the $22.25bn level to which they later dropped.

The coming of the OBUs has brought to Bahrain some of the other features of a financial centre—such as money broking operations and, less spectacularly, development of Bahrain dinar bond issues.

Service industries are beginning to rank alongside oil, gas and manufacturing as pillars of the Bahraini economy, which is now finding the first faint signs of an upturn after recession. If, as now seems likely, the causeway across the shallow waters to Saudi Arabia goes ahead sometime next year there will be a further boost to the economy though the Government does not want to see an explosion such as that of 1975-76.

All this is moderately good news for Bahrain's 19 local banks, which have been quietly recovering from the recession. Mr. Abdullah Said, Director General of the BMA, says he anticipates a 10 per cent increase in bank lending this year with a 15 per cent increase in liquidity—compared with 13 per cent last year. But the banks will need to be careful not to repeat the lax lending control that led to the 1975-76 real estate scramble, still evident in the fact that 40 per cent of all lending is committed to the construction sector. Some borrowers find the interest payments hard to keep up and dud cheques are still quite common.

The first quarter 1979 return from the 19 banks (excluding the al-Ahli Commercial bank which only opened in December 1978) showed advances and creditors up by three per cent and money supply up by nearly the same amount. Trade showed an upturn with contra accounts up 6.7 per cent (but less than inflation). The 1978 figures show that the two locally incorporated retail banks, National Bank of Bahrain and Kuwait, held 55 per cent of the assets and made 44 per cent of the profits.

J.B.

Kuwait

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national KD bond market. Whereas there were only six new issues valued at little more than $70m in 1977, there were eighteen new issues totalling KD154m ($557m) in 1978.

This increase in business saw also an increase in the quality of borrower, with the KD10m City of Oslo borrowing being the breakthrough into the top quality league that the Kuwait markets have been looking for. In May this year Kuwait acquired another triple-A borrower, when a KD10m bond issue was made at 7¾ per cent for the Banque Nationale de Paris. This growth took place, of course, at a time when the dollar was weak.

As evidence that Kuwaiti financial institutions have lost none of their innovative flair, enthusiasts in Kuwait point to two new developments this year—the issue of credit cards by the Gulf Bank and the Commercial Bank and the institution of Central Bank bills to drain off excess liquidity. A Gulf credit card is certainly an innovation likely to prove valuable, but the issue of Central Bank bills is an admission by the Kuwaiti financial authorities that they have more money than they know how to handle.

Tempted

Neither the Central Bank nor the Government needs the extra money deposited with them by the commercial banks who purchase bills from the Central Bank. The bills are merely a means of finding a short-term home for liquid funds which Kuwaiti bankers might be tempted to lend through, for example, the Bahrain offshore market.

Another innovation on the Kuwaiti banking scene is the establishment of the Kuwait Finance House, a new bank owned 49 per cent by the Government through the Ministries of Finance, Justice and Awqaf. This bank is to operate strictly on Islamic principles. Interest will be neither paid nor charged. Borrowers will be expected to reimburse the bank with part of whatever profits they might make on transactions financed by the bank, and depositors will receive a share of the profits of the bank on its own operations.

Kuwait's financial scene has some worrying features when examined in a harder light. Although commercial bank profits are up, and the market value of the commercial banks' shares on the Kuwaiti stock exchange has never been higher, the rate of increase in banking business is falling. Bank lending increased by 35 per cent over the previous year in 1975, in 1976 the increase was a stupendous 83 per cent. In 1977, the increase was only 27 per cent and last year was under 20 per cent.

The reasons for this decline in bank lending, which is reflected in the ever-increasing liquidity of the Kuwait banks, include the collapse of the development boom in the Gulf, the recession in world economic activity and the increasing lack of domestic investment opportunities in Kuwait. With investment in industry in the State mostly handled by the Industrial Bank of Kuwait and the finance of property development through either the Kuwait Real Estate Bank or the Credit and Savings Bank, the commercial banks are left with the finance of trade and construction, plus inter-bank business.

Although the volume of credit has almost trebled since 1974, the breakdown of lending shows remarkable stability, with the finance of trade occupying a constant 30 per cent of the total. Possibly as a result of the appearance in Kuwait of small financial consultancies, the share of credit to the financial sector is on the increase.

There is no aspect of Kuwaiti financial management policies more indicative of basic attitudes, and hence potentially more disturbing from the point of view of the State's future as an international financial centre than the attitude of the Central Bank (and hence, it must be assumed, of the Government of Kuwait) to the Bahrain offshore market. Kuwait is probably a victim of its own success in previous years. An attitude appears to have grown up among Kuwaiti bankers that they have a near monopoly of financial acumen in the Gulf. The Bahrain offshore banking development was initially regarded in Kuwait as an amateurish experiment, bound to fail. Then Bahrain's OBUs started making money and worse, making money at the expense of, and taking business from, the Kuwait banks.

In the days before they became rich the instinctive reaction of the Kuwaiti merchants would probably have been to enter the Bahrain offshore market themselves, and possibly even to dominate it. Certainly they have the resources to do so. Instead, the reaction of the Central Bank of Kuwait was bureaucratic: this year it revised its own rules to make it more difficult for Kuwaiti banks to lend money in Bahrain. A move aimed at hurting the Bahrain OBUs has probably harmed the Kuwait banks themselves rather more.

John Townsend

UNITED ARAB EMIRATES

Lack of cohesion

AS EVER the United Arab Emirates presents a confusing and variegated scene reflecting the great disparity of wealth among the member States, political difficulties barring progress towards greater unification, and a lack of any coherent economic policy—not the least because of the continued absence of a central bank.

The disparities in the UAE are all too obvious. Responsible for 80 per cent of UAE oil production, Abu Dhabi, while still carrying the greater part of the federal budget and disbursing large amounts of aid, should add significantly to accumulated assets now understood to be in the region of $9bn. Dubai's outstanding liabilities will soon amount to about $2.7bn.

Sharjah's debts, estimated at $1bn, are enormous in relation to its small and declining petroleum income. More worrying is the position of Ras al Khaimah, which has run up debts of $500,000 but has no petroleum resources. Umm al Qiwain, Ajman and Fujairah remain humbly dependent on Federal finance.

This year Abu Dhabi's revenue will almost certainly be in excess of $10bn or 38-39bn UAE dirhams. At this point it is difficult to make any precise projections about the size of its surplus, which in 1978 is believed to have been rather more than $1bn.

Its performance in disbursing development allocations has improved. Expenditure on that score may exceed the Dh. 0.7bn projected. Because of a paralysing consitutional crisis—that may or may not have been solved by the formation by Sheikh Rashid of Dubai of a new Government two weeks ago—no federal budget has been drawn up.

Whatever Abu Dhabi's outlay on this score it seems likely to generate a surplus of no less than $4bn after aid disbursements of some $1.25bn.

Strategy

The Abu Dhabi Investment Authority (ADIA) has now a well-developed and sophisticated strategy for management of its accumulated assets which, like Kuwait's, are designed to provide an alternative source of income in the future. It is basically a conservative and secretive institution that is sensitive about its image. Its only dramatic and much publicised acquisition was the Commercial Union building in London five years ago. However, holdings in seven U.S. airlines purchased on behalf of ADIA by Morgan Guaranty were revealed late last year.

Of the assets controlled by the ADIA, $1.2bn was lent at a commercial rate last year to Abu Dhabi Gas Industries, which is developing the scheme for gathering and processing the on-shore gas. Also included among them are some $500m worth of foreign placements made by the UAE Currency Board in 1976-77—none of which was ever publicised—and reckoned to have been extended to borrowers of less than blue-chip quality. But there has been no default in respect of them.

The ADIA is interested in property but has had difficulty in finding suitable investment opportunities, especially in the U.S. where the decline of the dollar has made purchases relatively cheaper. Property accounts, however, for only a small part of the total assets, as do precious metals. Three-quarters of the total are accounted for by bonds and equities. Last year Abu Dhabi is understood to have been successful in reducing the proportion of its dollar holdings from 70 to 40 per cent or less. No fewer than two dozen portfolios are now managed on behalf of the ADIA by institutions abroad in the U.S., Britain, France, West Germany, Switzerland and Japan.

By a happy combination of circumstances Dubai was able to raise its oil output last year by 13 per cent to a level of 362,000 b/d which is expected to be the peak. It should be able to maintain this level next year whereafter it is expected to decline — but not below 300,000 b/d until 1987. This year's price increases should mean petroleum revenue of over $1.8bn compared with an estimated $1.3bn in 1978. This is reassuring to the Emirates' creditors.

Dubai at present has outstanding loans of rather more than $2bn, most of it for big industrial projects including the drydock and the aluminium smelter, the viability of which has been a matter of some debate. Added to these liabilities will be the $670m Eurodollar package now in the process of being assembled by Citicorp International, Lloyds Bank International and the National Westminster Bank. It will be made up of a $230m credit earmarked for the Dubai Aluminium Company (DUBAL) and another of $120m for the Dubai Gas Company. The balance is a general purposes facility.

The fund raising, which was reported to be proceeding well, should be seen as a big vote of confidence in Dubai and its Ruler, Sheikh Rashid. He seems well able to cover his debt-servicing commitments which this year will be $500m-$600m and with the liabilities of the Dubai Electricity Company to be settled reached their highest level in 1980.

Sheikh Rashid has significant sources of income other than petroleum, most of which are not identifiable because they derive from his own business interests — no distinction is made between the Ruler and the Emirate as far as his revenues are concerned. It remains to be seen how his resources will be affected by his agreement to transfer half of his oil receipts to the Federation.

In 1978 Sharjah's oil revenue from the Mubarek field off the island of Abu Musa would have been about $35m. Under the agreement reached in 1971 following the Iranian seizure of the island Iran takes 50 per cent of the proceeds, Sharjah 35 per cent and Umm al Qiwain 15 per cent. There seems little hope now of the new regime in Tehran surrending its share. Output has declined this year to a level of no more than 16.5m b/d, a fall of 25 per cent that will have largely offset the price rise. But the latter, according to the operators, should extend the life of the field beyond the year 1985 which they thought was the economic optimum before.

Sharjah's income is supplemented by money from other sources, notably the port, but is very small in relation to its total debt of about $1bn. Of this, $200m is accounted for by a syndicated loan raised by BAII which is guaranteed by Abu Dhabi. There have been two other such credits of $56m and $36m for which Anthony Gibbs and Citicorp, respectively, were responsible. Another $100m may be accounted for by developing loans made by the UAE Currency Board in 1976-77 that could safely be regarded as having been written off.

A fairly reassuring proportion of the total is said to have been lent against projects that may pay off. About a quarter is owed to foreign and local banks operating in the Emirate. It is mainly local contractors who have suffered, with some payments still two years or so in arrears. Sheikh Sultan Sharjah is being helped out by periodic hand-outs from Sheikh Zayed, President of the UAE and Ruler of Abu Dhabi, on whom he can apparently rely with some confidence for salvation in the future.

At the turn of the year Abu Dhabi assisted Ras al Khaimah with $100m paid in three tranches to help with the State's indebtedness which, though less than Sharjah's at about $500m, is regarded as more serious. The chief paymaster is much less willing to help until the Ruler of the Emirate, Sheikh Saqr, shows a less ambivalent attitude to the union. Much of the finance extended to Ras al Khaimah by banks has been un the assumption that Abu Dhabi would bale him out and also on hopes, which so far have proved illusory, of oil discoveries.

A large proportion of Ras al Khaimah's total indebtedness is accounted for by development loans amounting to the Dh. 1.1bn, or the equivalent of $286,000, made by the UAE Currency Board for projects now considered to have been "inadequately appraised." The money could be regarded as written off.

The stagnation that followed the 1974-76 boom is reflected in the still somewhat parlous situation of the banking system that still cannot be said to have recovered from the 1977 crisis. There still remain 52 commercial banks operating in the UAE with 350 branches—one for every 25,000 inhabitants. Total deposits non-governmental at the end of 1978 were marginally down o nthe level three years earlier at Dh. 15.62bn. According to the UAE Currency Board, 10 institutions account for two-thirds of total business. Some 25 banks have no more than 5 per cent of deposits.

Starkly indicative of the system's lack of health is the fact that the commercial banks' foreign assets declined by nearly 25 per cent from Dh. 19.23bn at the end of 1976 to Dh. 14.30bn at the end of 1978, while foreign liabilities rose over the same period almost threefold from Dh. 12.29bn and Government deposits declined. Moreover, at the end of last September no less than Dh. 7.63bn or precisely one-third of total credit advanced was to the construction industry. Many observers believe the proportion to be much higher. In Abu Dhabi the sector accounted for no less than half and in the other Emirates a quarter.

To solve this problem Sheikh Zayed last December announced that a national Real Estate Bank would be established. The plan was that the new institution would take over outstanding advances in respect of real estate development and allow the debts to be repaid over a period of 10-15 years at rates of interest of 2-4 per cent. This would release credit for other purposes—though at present no obvious outlets exist—or allow the banks to run down their foreign liabilities.

By mid-summer there was no sign of the bank appearing. Sheikh Zayed has had other more urgent political priorities, it is said. He may also be reluctant to save the imprudent in the other States until general agreement has been reached about the future shape of the UAE.

Paralysis on this front has also been responsible for the failure to tackle another root problem—the upgrading the UAE Currency Board to a fully fledged central bank. The crisis of 1977, when its heavy-hand action—following a heavy r on the dirham—caused an acu shortage of the currency, forc two banks (both now back business) to close and p others in dire straits. At t cost of a painful squeeze, credit controls, reserve requir ments and capital-assets ratio 1:15 subsequently impose brought an element of stabili and also helped to cu inflation.

Compared with a rate of per cent in 1976 the expansio of money supply has been ke to about 10 per cent over t past two years. In 1978 t increase in bank credit was per cent compared with 50 p cent in 1977 and 86 per cent 1978. According to offic figures, inflation was reduced 15 per cent—down from 25 a 35 per cent in the two previo years. A measure of contr has been introduced but n enough.

Miracle

Almost miraculously the val of the dirham has been he steady. Linked to the SDR wi a margin of 2.25 per cent it w last revalued to a rate of $ last year. But the Curren Board still does not have t essential power of a moneta authority to control the inflo of foreign currency and thus able to keep the value of t dirham steady. Dubai ar Sharjah have refused to chann their oil revenue through it.

That was true also for mo of last year of Abu Dhab which only at the end of t year gave a much needed tran fusion to gold and forei exchange reserves which h fallen from $824.4m at t beginning of 1978 to $701.2m the end of the year.

As it is, the Curency Boa has been able to fulfil its mini mum obligation of covering per cent of the note issue an demand deposits. But as complained in a recent repo its holdings "must not only seen in terms of the legal cov requirement but also the lev of imports and also oth foreign exchange requireme of the system arising fro remittances, travel, expens and the like."

Powers over foreign exchan would be given by the la drafted by the Internation Monetary Fund which has bee gathering dust awaiting t approval of the UAE Suprem Council. Another of its pr visions would require a mini mum paid-up capital of abo $5m that might help for mergers, stop multiple directo ships and the conseque malpractices, and help restru ture the system. Establishme of a central bank is a hig priority. But it would still nee to be accorded the necessar political status and backing if is to function properly.

Richard John

ALGERIA

Shift in emphasis

THE INCOME Algeria derives from oil and gas will increase by about $4bn this year, a figure which could prove conservative if the turmoil in the international oil markets leads to further increases in the price of crude during the second half of this year. This increase in income (last year's earnings amounted to $5.4bn) comes at a most opportune time for Algeria's leaders and planners.

The next economic development plan is currently being drafted, having been delayed by the death of President Boumedienne and the election of his successor Benjedid Chadli. Further delays are expected as there are no signs of when the ruling FLN party congress, which must approve the plan, will meet. Signs point to a continuing struggle for power among various groups within the leadership. This suggests the congress could be delayed until much later this year.

This need not necessarily worry the planners. Indeed a shift in emphasis away from the heavy industrial sector is already visible. Housing, water, food, distribution, transport, agriculture and fishing are all being allocated a greater share of the country's resources.

In many major fields of activity the new plan will not add much. Where oil and gas are concerned, the State company, Sonatrach, is working on a 25-year development plan which it showed to Western bankers last year.

The most notable feature of tha past six months is the agreement reached between Sonatrach and El Paso to raise the price of the liquefied natural gas (LNG) which the U.S. company imports from Algeria in the framework of a contract known as El Paso 1. From July 1 the price of gas delivered to El Paso has risen fourfold to $1.15 per million British thermal units (BTU). El Paso's customers have agreed to the increase but the agreement of the U.S. Federal Energy Regulatory Commission (FERC) is still needed. El Paso and Sonatrach have also agreed to increase the price of the gas imported to the U.S. to $1.75 per BTU by 1982 and review the price every three years thereafter.

Expand

Natural gas production rose by 70 per cent in Algeria last year and should expand further in the current year. The LNG 1 gas liquefaction plant, the first to be completed in Arzew, the major gas base in western Algeria, is producing at an estimated 60 per cent of capacity. That figure should be close to 100 per cent by the end of the year. Based on current production levels and taking into consideration the new price agreed between Sonatrach and El Paso, the plant will earn Algeria $600m a year. That figure will be close to $1bn once full production is achieved.

Keeping track of the evolution of the gas liquefaction programme is important. Up to now the income Algeria has derived from gas has been small if compared to that derived from oil. However, by the mid-1980s gas is expected to have overtaken oil as the country's main hard currency earner.

The gamble Algeria made of developing its gas resources back in the 1960s was a bold one: it looks, and everyday more so, as if it will pay off handsomely.

Other sectors of the economy face difficult problems, however; heavy industry's productivity levels are often dismally low. A major effort has to be made to increase production levels, improve the quality of management and increase co-ordination between tha various sectors and Ministries. Building further plants could spell disaster in the future.

Another problem, in certain sectors, is that of corruption. While less widespread than in many other countries in the area, it is of no minor importance, especially in the food import sector and in building. If further plants are ordered abroad, this problem will be less easy to control as management skills will be spread even thinner than they are today.

Of all the sectors requiring attention, two are paramount—agriculture and housing. Tha first is now in the hands of a very competent trio, two of them are officers and the third the late President's adviser on agriculture. Recent figures of production are not available but even if it has increased on tha land last year, the rate at which the population is rising and its improved standard of living mean that a sharp rise in output is vital. Not only will it keep people on the land; it will ensure that Algeria is not at the mercy of a very steep increase in the price of imported foodstuffs. Housing is another sector where the authorities must make up for a lot of lost time unless they wish to be faced with a social explosion in a few years' time.

To help finance these massive developments, Algeria increased its borrowing threefold in 1978 and emerged as the largest borrower among the OPEC countries. It raised $3.2bn altogether and the trend has continued this year, with loans and bonds worth $1bn arranged by early June and a $500m loan expected. Algeria is still paying more than some of its neighbours when it raises money. Apart from the fact that its overall level of borrowing is much larger, the toughness shown by bankers and tha time it takes them to negotiate seem to be the reasons behind these relatively hard rates, at least according to Western bank sources.

Even if they have not changed their negotiating stance, the Algerians have tried, and to some extent, succeeded, in putting some order into their borrowing and the way they approach the market.

Co-ordinating from Algiers is no easy task. Perhaps if the next plan concentrates on improving the existing plants rather than building new ones, Algerian bankers will have an easier time.

Many of the problems which face Algerian planners today are not new. The smooth change in leadership has been impressive but success will only be considered complete when it is quite clear where ultimate political authority rests in Algiers. The dust has not yet settled and it is a little early to say how the Algeria of Benjedid Chadli will differ from that of Houari Boumedienne—if at all.

Francis Ghilès

QATAR

Measured progress

THE BANKING community in Qatar in many ways reflects the atmosphere of the capital itself—that of an overgrown Arabian coastal village. Its members are few—only 13 banks and 30 branches handling deposits worth Qatari Riyals 3.2bn. That is less than one bank for every 10,000 inhabitants, a modest ratio compared with some other nearby Gulf States.

Yet, as with banking, Qatar has always done everything in a more measured and hesitant way, allowing its neighbours to take the plunge so that the results can be assessed and absorbed by Qatar. When a property boom began over two years ago the Government moved quickly to avoid the experience of Sharjah in the UAE, and forbade the banks to lend for purposes of land speculation. To a large extent it worked, for in a State as small as Qatar, with a population of only 200,000, economic measures can easily be made effective.

The economy is also a great deal smaller, for Qatar is responsible for only 1.5 per cent of OPEC's total oil production. Output is currently running at 258,000 b/d onshore and offshore production levels are expected to average at 275,000 b/d, a considerable increase over last year, which averaged out at 246,000 b/d. Increasing production and rising prices means that Qatar's oil revenue for the year could work out in excess of QR 12bn compared with QR 9.8bn in 1978. On paper at least the Qataris are one of the richest people on earth, with an annual per capita income of more than $86,000.

Yet despite this apparent wealth, banking in Doha is a very restrained affair. Bank credit in the 12 months preceding March 1979 rose only 16 per cent to QR 2.7bn, compared with previous growth rates in the 1975-77 period of nearly 60 per cent. Deposits during the same period went up from QR 3.07bn to QR 3.2bn, a relatively modest jump from the time when local currency deposits were going up by over 30 per cent a year three years ago.

Heavy

Trading still absorbs the major slice of bank credit in Qatar, accounting in March this year for QR 1.2bn out of a total of QR 2.7bn. The figures issued by the Monetary Agency show that housing only absorbed some QR 525m, though undoubtedly much of the outstanding property loans and advances to contractors who are awaiting payment from the Government are hidden in other categories. Encouragingly, however, industry jumped from QR 129m to QR 223m, though as yet the favoured occupation for the Qatari is still trading.

Many are hoping that with the added bonus of the oil price increases this year, the Government will reflate the economy a little. Imports for 1978 stagnated over the level of the previous year and indeed showed a drop for the first time in Qatar's history. The drop was only small, from QR 4.8bn to QR 4.5bn and this year's figures show an encouraging trend upward.

The capital development budget for the year has also gone up 15 per cent, though as always the industrial development programme is absorbing the lion's share. Nevertheless, there is still a lot of infrastructure work to be done in Qatar, particularly in the electrical and water distribution field, though some local contractors are short of work and many are awaiting the major contracts on the two major projects under way in the capital—the Doha Sheraton Hotel and the new QR 1bn university.

Until such time as contracts are let, the banks are taking a cautious line. Most of the Government oil income earmarked for expenditure is channelled through the Qatar National Bank, which accounts for 45 per cent of all deposits, leading to occasional grumbles by other local bankers that they are left out.

Nevertheless, demand for credit is still heavy and a number of banks are known to be maintaining unhealthy ratios of advances to deposits. Officials of the Monetary Agency say that the instances are few and are now being tackled on an individual basis. The competition between the banks for deposits is placing certain stresses on the old interbank agreement which has been in effect for nearly eight years. The changes in world interest rates have also meant that the local banks are working on tight margins.

The interbank agreement stipulates that interest on credit shall range from 7 to 9.5 per cent annually and on deposits up to 6.5 per cent. But a number of banks anxious to sign up new customers have been offering rates as high as 9 per cent. The whole of the interbank agreement has now been made the subject of a report by the local bankers' association which has made a number of suggestions as regards interest and commission charges. The report, which took several months to pass through the Monetary Agency, has been lying in the Ministry of Finance for nearly a year, and as yet has not been answered.

The Monetary Agency itself is only slowly adopting the apparel of a central bank. A team of inspectors is being trained to assume more supervision over the local banks in the future, and the total staff complement is expected to grow from its current total of 25.

In recent months it has also become much more involved in advising the Government and enacted two revaluations of the Qatar riyal this year. The revaluations totalled 2.5 per cent, and disturbed the parity system which existed with the United Arab Emirates and Bahrain. However, Monetary Agency officials felt that while the currency union between the three States which had been so much talked of during the past five years was desirable, it was impractical for now. The economies were too unequal, they felt.

Kathleen Bishtawi

EGYPT

Boycott a worry

BOYCOTT—OR threatened boycott—notwithstanding, the banking community in Cairo seems to be quietly flourishing. It depends to some extent of course on to whom one is talking. There are worried faces among the bankers with connections in Saudi Arabia and the Gulf. But those dependent on tapping the local market for savings or on Western funds have made few adjustments to their expansion plans. Indeed, some are unobtrusively slipping into a higher gear now that they are finding their feet.

Introducing modern banking techniques into an economy effectively cut off from the outside world for 20 years has not been easy. Credit ratings for potential customers have to be established, while the initial high risk factor limits potential investment projects. In the wake of the launching of the open door policy in 1974 the foreign banks naturally contented themselves with financing trade as a way to finance the costly business of establishing a presence. Many came—some 70 in all—in the hope of taking a slice of Egypt's burgeoning import finance requirement (the import bill was $4bn last year).

Their initial lack of enthusiasm to finance investment projects, as stipulated under their licences, soon drew criticism in the local Press. The local banks, fearful of the competition and wholesale raids on their personnel, were quick to exploit these complaints.

Challenge

They themselves were ill-equipped to meet the challenge of the foreign bank invasion. The four commercial banks — Banque du Caire, Banque Misr, Bank of Alexandria and National Bank — became during the Nasser era, little more than money lenders to the public sector. Business was parcelled out on a pro rata basis and as the public sector felt more comfortable acquiring funds on bank overdraft, with few constraints on lending and interest rates unrealistically low, the local banks did a good but unproductive business.

Herculean efforts have been made by Finance Minister, Ali Lutfi, and his predecessor to bring the bank-financed public sector deficit under control, but it is involving little short of a cultural revolution. At the same time there is a growing realisation that nothing can be done to improve the traditionally low rate of domestic savings until interest rates rise sufficiently to compete with the 12-13 per cent Egyptians can obtain from locally-held dollar and other foreign currency deposits.

Domestic interest rates rose 2 per cent last year to the current 8 per cent base rate and Egypt has agreed under the terms of the IMF Extended Fund Facility last year to push them higher. The raising of interest rates is being resisted by the public sector because of the extra servicing cost it will entail. Nevertheless, Dr. Lutfi has promised to increase interest rates on housing bonds from the current 6 per cent to 8 or 9 per cent by the end of the year, according to local Press reports.

Last year local banks were given permission to deal in foreign currencies by taking dollar deposits and issuing foreign currency bonds. Previously only Egyptian-controlled joint venture banks were able to tap the lucrative business of offering customers both Egyptian pound and dollar accounts (offshore banks are only allowed to deal in foreign currencies).

This official pushing and prodding has given more heart to the domestic banks to be enterprising. It has also helped them take a constructive rather than obstructionist attitude to foreign banks.

There have been changes too in the foreign banking scene. Stiff competition, especially in commercial banking, has put off the fringe bankers but has not stopped those with serious intentions from putting down roots and prospering.

Chase National, the Egyptian-controlled joint venture between the National Bank and Chase Manhattan Bank, used to be the yardstick by which to judge foreign banking success; but after a period of phenomenal growth it is now consolidating. Chase National has been active in syndicating loans and recently launched the first Egyptian pound-denominated syndicated loan for a total of $10.2m for a Seven Up bottling plant extension.

Now the running is being taken up by Misr International Bank, which like Chase National is able to work Egyptian and foreign currency accounts because of the controlling Egyptian interest, 47 per cent Banque Misr and a four per cent Misr Insurance Company. The remaining 49 per cent is held by European, American and Japanese interests. Mibank more than doubled its profits last year to E£2.6m and looks for a steady rise in medium-term lending. At present it has E£6m committed and E£4m disbursed. It has opened a branch in the southern Cairo suburb of Maadi and will be opening another in Heliopolis towards the end of the year.

Dearth

Much the same story is reported from the European and American orientated off-share banks. Citibank and Lloyds International, for instance would like to do more medium-term lending but have until recently found a dearth of properly thought out ventures. Both are assiduously cultivating their links with the larger business corporations, using export credit facilities where possible, providing supplier credits or syndicating loans where the funding required gets larger. Lloyds in particular would like to develop its links with the public sector companies which still tend to stick by their traditional links with the domestic banks.

An important new element in the Cairo banking scene is a group of Egyptian banks set up mainly to utilise the remittances of Egyptians working abroad. They include the Nile and Delta Banks. Most prominent, however, is the Suez Canal Bank, which was set up specifically to encourage development in the Canal Zone

Since it has the powerful Arab Contractors' pension fund and the Suez Canal Authority as shareholders, some say with envy that it cannot fail. These banks are also posing a threat to the clearing banks. The Suez Canal Bank is believed to be taking some of the coveted Suez Canal revenues, previously the domain of the clearing banks. Citibank has tried with limited success to break into the Suez Canal revenue preserve by setting up a branch in Port Said for correspondent business but with limited success.

This healthy domestic growth should not disguise the long term harm a sustained Arab boycott could do.

The obvious casualty is the Arab Organisation for Industrialisation (AOI), to be disbanded on the instructions of Egypt's other three partners Saudi Arabia, the UAE and Qatar. Dismemberment of the $1.04m arms production organisation may yet involve the correspondent banks holding AOI funds in painful decisions.

The whole construction industry was heavily dependent on Gulf and Saudi private funds channelled through the Arab offshore banks. Funds seem to be coming through for ongoing projects, but the fate of new projects is far less certain. One syndication with Arab money for a hotel does appear to have been put together since the Baghdad resolutions, but it will be some months yet before the true picture emerges.

The other notable and potentially damaging casualty of the boycott has been the $300m Eurodollar loan which the Arab giants of the Cairo banking fraternity, Arab African International and Arab International bank, were helping to syndicate with the European Arab Bank of London and UBAF of Paris.

Syndicate

Withdrawal of their support killed the loan, although Citibank, one of the three European lead managers, has made an offer to syndicate a loan of up to $130m to purchase four McDonnell Douglas DC-10s, part of the original package.

The $300m loan was Egypt's first sally into the Eurodollar market on its own surety. A $250m loan lead-managed by Chase Manhattan in April 1977 was underwritten by the Gulf Organisation for the Development of Egypt (GODE). Uncertainty about the status of that loan can only affect Egypt's credit rating adversely when it comes to tap the Eurodollar market in earnest a year or two hence.

Removing the Arabian rug could affect another important reform — the floating of the Egyptian pound. Great strides have been made in unifying the exchange rates. At the beginning of the year the absurdly over-valued official rate of 39 piastres to the dollar was scrapped, leaving a parallel rate of 69 piastres to the dollar and an open market rate of between 72 and 80 piastres. Since the Baghdad sanctions the open market rate—despite large workers' remittances—has been bumping up towards the 80 piastres level, reviving fears of a black market developing again.

While the disparity remains around 10 per cent, it will be hard to float the pound. For the even development of banking institutions and the creation of a capital market, reliable access to foreign exchange — supplied more than amply until now by workers' remittances — is essential. It will become more so as the demands of the expanding economy become greater, when companies make calls for $30m or more which they are beginning to do now. It is here that a boycott, stringently applied, may have its greatest impact.

Alan Mackie

LIBYA

A weak system

THERE WAS alarm in Western capitals at the end of June when Col. Muammar Gaddafy, the Libyan leader, said that Libya was planning to stop all oil exports for up to four years. Herr Hans Dietrich Genscher, the West German Foreign Minister, was particularly surprised, Gaddafy having promised Germany more oil only a few days before. Other countries had bad the same promise in the wake of the Iranian revolution.

This was not the first time Col. Gaddafy had threatened to stop oil exports: he had made it clear in various interviews since the spring that he favoured keeping oil in the ground. In June he said he was thinking of stopping the 730,000 barrels per day Libya sells to the U.S., in retaliation for an American embargo on aircraft deliveries.

Yet the talk of halting oil exports appeared to be a statement by the Libyan leader of what he would like to do rather than what he was intending to do, as he indicated when he later watered down the statement that had caused so much trouble.

The fact is that despite its population of only 2.8m Libya spent the bulk of its revenue last year at home and even though it is accumulating a larger surplus this year its accumulated reserves, which stood at $3.8bn last February, are not sufficient to allow it to keep going without oil exports for more than a few months.

Revenue in 1978 was $8.6bn, and expenditure is believed to have been $6.2bn, which should have left a surplus; puzzlingly, though, reserves declined from $4.8bn at the end of 1977 to $4.2bn at the end of 1978. This year revenue from 1.8m barrels of oil per day is expected to amount to more than $11bn, in view of the much higher oil price, while budgeted expenditure has been officially set at $5.3bn, less than the 1978 target.

In fact Libya is in the throes of a "Transformation Plan" which has very wide implications both for the country itself and for the budget. Some $10bn of projects were under way at the beginning of this year and between June, 1978, and June this year some $5bn worth of contracts were signed in the non-military sector alone, while defence spending is huge.

Under the Transformation Plan Libyan planners are committed to set up the kind of welfare state Col. Gaddafy is advocating in the three volumes of his Green Book. It goes up to the year 2,000, aims to make Libya self-sufficient in food and consumer goods, to provide a house for everyone, to set up the best communications network money can buy, and to equip the 27,000-man armed forces with an impressive arsenal.

The plan is in the image of the country itself—huge. It includes reclaiming 800,000 hectares of land for agriculture, building a $300m steel mill at Misurata on the Mediterranean coast, new townships at Marsa el Brega and Ras Lanuf at a cost of $1.35bn each, houses for 500,000 people by the year 2,000, and thousands of kilometres of roads to link together different corners of this 1.7m sq km country—seven times the size of Britain.

All this requires immense expenditure, and costs are rising because of Libya's growing dependence on foreign contractors and on the 400,000 expatriate workers the country employs. Dependence on foreign contractors has grown since the General People's Congress decided last January to implement Col. Gaddafy's Economic Revolution principles of turning private enterprise into "partnerships of workers," which set off a flight of Libyan businessmen into exile.

The first five-year plan, running

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IRAQ

Greater confidence

IT TOOK the Iranian revolution to place the evident potential of Iraq in perspective. The fall of the Shah, and the cutback in Iranian oil production, emphasised the country's significance as the world's third largest oil exporter. Yet the introspective nature of Iraqi politics, combined with the obsessive secrecy of the government in Baghdad, ensures that Iraq's economic performance is usually obscure.

Its potential springs from Iraq's unique position among major Arab oil producers of having a comparatively large population—12.8m. Oil production is now estimated to be 3.2m barrels a day with very large oil reserves. Exploration has been limited but the Iraqi Oil Ministry claims that these are potentially 95bn barrels.

Even without the Iranian cutbacks Iraq eventually would have overtaken it as OPEC's second largest producer. The fall of the Shah simply means that Baghdad's current output is only a little less than its eastern neighbour. With oil revenues in 1978 already totalling 3.2bn Iraqi dinars ($10.8bn) 1979 revenues should reach at least $14bn.

Much of the increased revenue will be spent on improving pay and social conditions—the Government's most likely response to the possible political repercussions of the Iranian Revolution.

Secrecy

This means that its financial reserves are unlikely to show any sustained dramatic rise over the next couple of years. Over the past two years the regime has shown great secrecy on this question. The last figure that the International Monetary Fund has been permitted to publish was for the end of the third quarter of 1977. Gold and foreign exchange reserves then amounted $5.67bn. At the end of last year they were believed to total about $8.5bn.

Apart from pay and social conditions, Iraq is showing a growing absorptive capacity. Last year, for instance, total expenditure on construction rose to $3.35bn and the country is now considered the second biggest market in the Middle East for this sector. In the first quarter imports overall were 28 per cent below official projections. But this year's allocations for capital goods were up no less than 179 per cent over the 1978 level.

State organisations and ministries show a growing capacity to determine their own plans rather than rely on the Planning Ministry. But knowledge of the precise state of Iraqi finances is hardly assisted by the largely blank sheet Iraq has contributed to the IMF's International Statistics since the beginning of 1978.

It is apparent that aid to other Arab states is increasing. The ideology of the ruling Baath party stresses that oil wealth should be spread among all the Arabs. So far Iraqi aid record has not been spectacular.

At the Baghdad summit in March, Iraq pledged itself to dispense $1bn to the front line states. As the initiator of the agreement ostracising Egypt politically and economically, the Government is bound to honour its commitments. Its increasingly forward role in the Arab world's politics is also likely to mean more aid from the Iraqi Fund for External Development. North Yemen is already scheduled to receive a loan of $300m, a sign of Iraq's backing for Sanaa against Aden.

The Iraqi banking system will see little of the increased revenue. The almost total state control of the economy has tended to reduce the banks' domestic role to a smaller one than in almost any other oil exporting country. The commercial banks were nationalised as far back as 1964 (the public sector took over insurance, and re-insurance at the same time).

Since then consolidation has led to all commercial banking activity being handled by the Rafidain bank, which also has part in the investment of the state's surplus—though a minor one compared with the Central Bank.

Specialised banks—the Industrial Bank, the Real Estate Bank and the Agricultural Co-operative Bank—deal exclusively in their respective spheres. Between 1960 and 1973 only ID 161.3m had been advanced by all three. Since 1974 it has been the Real Estate Bank which has expanded most rapidly, its loans for 1977 totalling ID 66m.

Commercial bank deposits by clients had risen to about $1.4bn at the end of 1977. Yet it remains unclear what better paid Iraqis actually do with their money. Imports are closely controlled and luxury items seldom available in the shops. For instance, there is a long waiting list for cars of which imports are limited.

In vivid contrast to the situation in the Lower Gulf the Government has yet to surrender to the demand for more consumer goods. But the over-expenditure on last year's ordinary budget of $2.2bn is largely attributed to salary increases. It is difficult to believe that the Government can continue to suppress increased demand.

The revolution in Iran is likely to reinforce the Bagbdad view that its policy of austerity is the safest political course. Nevertheless, the rigorous controls on imports, combined with the many failings of the State distribution system, clearly add to inflationary pressure which may be difficult to control.

The ruling Baath Party has always been aware that the unpopularity inevitable in its rigorous political control has been compensated for to some extent by greater economic prosperity spread right across the country. Indeed, Iraq's economic policies since the ruling Baath Party came to power in a coup in 1968 have been distinguished by the Government's acute sense of its political vulnerability.

From the fall of the monarchy in 1958 to the collapse of the Kurdish rebellion in 1975 Iraq was highly unstable. There was little industry outside the oil sector. Land reform struck at the feudal landlords without doing much for the peasantry. Development of the oil sector was affected by successive governments' disputes with the Western-owned Iraq Petroleum Company group up until its nationalisation in 1972.

Survival

The coming to power of the Baath Party in the coup in 1968 did not immediately and this situation. The Government was absorbed by the need for political survival. Planning, such as it was, remained incoherent when not merely academic.

Immediately after the 1973-74 oil price rises the Government, along with most other OPEC countries, began a policy of breakneck development. In the far south, around Khor al Zubair, vastly expensive steel, fertiliser and petrochemical plants, which were largely the fruit of this policy, were begun and are now being completed. But the absence of sufficient numbers of skilled workers, managers or an adequate infrastructure has rapidly ensured that ambitious plans have had to be abandoned. Since early in 1976 the emphasis has been largely on infrastructure.

Agriculture is an example of the failure of early plans conceived in 1973-74. Despite its theoretical priority in development planning it has proved impossible to raise its allocation in the development budget to much above 20 per cent (Industry takes some 40 per cent). For all the vast irrigation and drainage schemes in the countryside agricultural production has dropped and is still dependent on the weather.

Inevitably there is now increasing emphasis on developing the oil and gas industry. Capacity is now about 4m barrels a day and this can be pumped either to the Gulf at Fao or through two major pipelines which run across Syria and Turkey respectively. New refineries are being built (capacity was only 184,000 barrels a day in 1975) and old ones expanded.

The emphasis on the oil industry and related developments is likely to increase though investment in major new industries will be cautious and limited by the weak infrastructure. At the same time the revolution in Iran probably will prompt an increase in the military budget. The armed forces, together with internal security, already accounts for 38 per cent of the ordinary budget.

So far there is little sign that the rigorous state control of the economy is loosening. On the contrary, the country's bureaucracy appears to be more confident than ever. Such sections of the private sector which remain are expanding with official encouragement—a sign of government confidence rather than indications of a diminution in its role.

Patrick Cockburn

LIBYA

CONTINUED FROM PREVIOUS PAGE

ning 1976-80, will cost $31.25bn when completed, 23 per cent more than originally estimated. Col. Gaddafy says: "This is crazy. Prices are rising all the time and we find it difficult to buy the goods we need." Almost everything is imported in Libya, from food to know-how and equipment.

Libya's ability to handle its revenue and to organise spending at home is seriously constrained by the weakness of the banking system. Libya's nine banks and financial institutions were nationalised in 1970, and have no branches abroad. Foreign banks have no operations in Libya, and there is no capital market. By crippling the private sector the economic revolution has limited the banks' role. There is little profitable lending to be undertaken now. The take-over of premises has also limited the property market sharply, and hampered imports since most Libyan importers had put up their premises as collateral against trade finance.

Banks and financial institutions in Libya now handle the repatriation of foreigners' earnings—foreigners are allowed to send back home 90 per cent of their earnings if employed on a desert site and 60 per cent if employed in cities—pay foreign contractors and State or "partnership" staff, and lend for housing, interest-free. Individuals in Libya can apply for loans to up to $47,000 to build a house. Banks also lend without interest to those willing to manage farms on land reclaimed for agriculture, but the cost of local agricultural products is still much higher than the cost of imported food.

The cost of living having risen sharply in the last two years, banks are collecting little savings. Figures are not available, no banking statistics having been published since 1977.

The Libyan Arab Foreign Bank (LAFB) is a special case and warrents special consideration.

Since it was set up by the central bank in July, 1972, to handle the massive oil earnings and foreign investments, it has become the most active financial institution in the country and one of the fastest growing Arab and international banks. It retains its independence, despite government control, or administration changes, and its chairman, Abdullah al-Sandi, and most of the management are accountable only to Col. Gaddafy.

LAFB recorded profits of $84.5m between 1972 and 1977 and a 1976 turnover of $2bn. It has participated in 28 international bond issues worth more than $1.5bn and has been an underwriter for more than 100 syndicated loans and other bonds issues worth $6.1bn plus, of which about 30 per cent went to developing countries. It has shares ranging between 7 per cent and 60 per cent in 24 international banks and companies, of which the most spectacular is its holding in Fiat.

LAFB has taken shares in three new joint banks since January—in Niger, Greece and Peru—but has not raised its shares or increased its investments in other ventures, a sign that oil revenue surpluses are not running as high as in the early 1970s.

Gerard Castoriades

JORDAN

Huge increase in business

AFTER A very brisk rate of growth that has included both the establishment of a series of new institutions and the adoption of new financial instruments, Jordan's banking sector is moving into a more relaxed period where all concerned can take stock of the past year's phenomenal increase in business. This is prompted by the Central Bank of Jordan's imposition last month of monetary controls designed to dampen inflationary pressures by curbing the growth in the money supply and commercial bank lending.

The controls—similar to those imposed in 1976—include a 70 per cent credit deposit ratio ceiling and raise the minimum reserve requirement of commercial banks from 12 to 13 per cent for time and savings deposits, and from 15 to 16 per cent for demand deposits.

Central Bank officials point out that commercial bank lending during the first quarter of this year was running at the rate of some JD 9m per month, compared to about JD 4m a month in the first quarter of last year. This has reflectad the banks' increased deposits, which rose by a phenomenally high 68 per cent in the 12 months from March 1978 to March 1979 (the latest months for which statistics are available), or from JD 302m in March 1978 to JD 508m in March 1979.

This has also reflected the increase in the economy's money supply (M2), which rose by 32 per cent in the same period, reaching JD 661m in March of this year.

The causes of the highly liquid state of the economy are to be found in the steady inflow of large amounts of money from abroad. These include the high level of official foreign aid to the central government budget, the approximately JD 300m a year in private workers' remittances, tourism income of about JD 100m a year, and enthusiastic commercial lending by banks.

The country's 15 commercial banks had total outstanding credits at the end of March this year of JD 363m, reflecting a very high increase of 70 per cent over March of the previous year. Equally worrying to the monetary authorities is that a full 62 per cent of this credit has gone to the inflation-fuelling trade, construction and property sectors, with relatively small loans directed to the productive industrial and agricultural sectors.

The Central Bank feels it can slow down commercial bank credits with its new controls, and possibly encourage bankers to lend more money to productive projects and less to the inflationary sectors. The country's bankers are irritated by the controls, claiming that they will cut down profitability.

Judging from initial reaction by commercial bankers, it seems that the Central Bank's controls will have one intended effect of prodding bankers to lend money according to the overall development requirements of the country, instead of purely according to their own profit dictates. A gradual readjustment of the credit portfolios of banks, with rather more stress on productive schemes, is therefore to be anticipated in the near future.

Hectic

This corresponds to a series of new developments in the Jordanian banking and finance sector during the past 12 months of hectic activity, most of which portend a far greater ability by Jordanian companies to raise their capital needs in the local marketplace, instead of turning abroad.

The 15 commercial banks have been joined by two investment banking institutions—the Arab Jordan Investment Bank (with strong Gulf shareholdings) and the Arab Finance Corporation (Jordan), which is allied to the Arab Finance Corporation of Beirut and its international group with several European companies, including the Al Saudi Banque in Paris.

Now under establishment is the Jordan Securities Company, which will bring strong international links into the budding securities market that is growing up around the 18-month-old Amman Financial Market (stock exchange). Jordan Securities Company has been promoted strongly by the Central Bank and the International Finance Corporation; the IFC, two Kuwaiti investment houses and the Korea Investment and Finance Corporation of Seoul are all expected to take minority shareholdings in the JD 2m capital of the new company.

It will deal in all kinds of securities, and plans to open its doors in January next year. Its work will revolve around the stock exchange floor, where business has been rising faster than anticipated this year. Trading volume on the floor during the first quarter of this year was JD 2.146m, and has been rising steadily to reach a daily average turnover of nearly JD 40,000 this summer. At this rate, total turnover this year will be over 100 per cent more than last year's total of JD 5.615m, according to the Chairman of the Amman stock exchange, Dr. Hashim Sabbagh.

This does not include trading of bonds, which the stock exchange initiated at the start of this year. The market lists 11 10-year bond issues, worth JD 60m, all of which were issued by the Central Bank on behalf of the Government. A new change in the tax laws now gives private corporation bonds the same tax exemption on interest earned that the Central Bank bonds had previously exclusively enjoyed. This is expected to increase the use of bonds as a financing instrument for local companies, as evidenced in the move by the country's sole cement company to raise JD 5m through a local bond issue that is being jointly underwritten and managed by the two new investment banking firms — the Arab Jordan Investment Bank and the Arab Finance Corporation (Jordan).

Negotiable certificates of deposit have also been introduced into the market by the Amman branch of Citibank, with other banks studying the popularity of Citibank's CDs to consider issuing their own. The semi-state Housing Bank is planning a CD issue later this year, which would be listed on the Amman stock exchange to encourage the development of a secondary market in CDs.

Practical

Yet another significant development has been the move to put together locally syndicated loans for Jordanian industrialists and investors. Five different local syndicates have been completed during the past year, most of which have enjoyed Government guarantees. Denominated in Jordanian dinars and usually having a 9 per cent fixed interest rate, the local syndications are proving practical for Jordanian companies, given the good interest rate and the lack of any foreign exchange risk inherent in inte[r]national borrowings.

The foreign exchange mark[et] is also changing. The polic[y] of the Central Bank is grad[u]ally to dismantle all foreig[n] exchange controls, Central Ban[k] of Jordan Governor Dr. Moham[m]ad Said Nabulsi told th[e] Financial Times in Amman. H[e] said this was dictated in part b[y] the country's strong balance o[f] payments situation, whic[h] showed a small surplus of som[e] JD 18m last year and is likel[y] to remain in surplus this yea[r] reflecting the strong inflow o[f] foreign money.

This inflow is expected [to] increase this year, given th[e] JD 400m pledged to Jordan b[y] tha Arab summit at Baghda[d] last autumn and the larg[e] amount of remittances fro[m] Jordanians in the oil States.

Needs

A new development in th[e] foreign exchange market will b[e] the establishment of a form[al] forward market; the Centr[al] Bank is now working on reg[u]lations to launch the forwar[d] market sometime this summe[r] which will primarily serve th[e] needs of contractors for forwar[d] cover now that most contrac[ts] in Jordan are priced in dinar[s].

The financial sector will s[ee] more diversity with the openin[g] of the new Jordan Islamic Ban[k] this summer. It will sh[un] interest-bearing accounts an[d] interest-charging loans, and wi[ll] instead operate on the profi[t] sharing principle, which it wi[ll] also apply to bond issues.

The Pension Fund is chan[ging] its status into an investme[nt] company concentrating [on] launching new industries, lea[v]ing the pension-paying functi[on] to the Finance Ministry. It wi[ll] be called the Jordan Investme[nt] Corporation.

Another institution in met[a]morphosis is the Municipal ar[nd] Village Loan Fund, which [is] being changed into the Develo[p]ment Bank for Municipaliti[es] and Village Councils. Its ne[w] status will allow it to iss[ue] bonds and borrow to rais[e] its capital, but it will contin[ue] to lend money only to finan[ce] municipal and rural develo[p]ment projects that are mostly [in] the social services sector.

Rami G. Khou[ri]

LEBANON

Waiting for the upturn

IN SPITE of four years of continuing turbulence and instability in Lebanon, local and foreign bankers remain confident that Beirut is still capable of regaining its status as an important financial centre in the Middle East.

They admit that the volume and diversity of banking operations has shrunk during the past four years, in which there have been 18 months of bloody civil war. But they believe the system would be ready for a spectacular upturn once long-term peace and stability were guaranteed.

During a recent visit to Lebanon, Mr. Robert Abboud, president of the First National Bank of Chicago, said: "I would certainly advise all foreign banks to retain a foothold in this country, because I can see an economic boom is imminent."

Lebanese pragmatists, including the Prime Minister, Dr. Selim al Hoss, himself a banker turned politician, no longer uphold the concept that Beirut is the Middle East's principal financial centre "because this is no longer true"—and they point to the growth of other financial centres such as Bahrain, Kuwait and Amman.

But given lasting tranquillity and peace, Beirut could prove to be an important part of the region's overall banking and financial operations, the pragmatists say.

They generally assume that the unrestricted foreign exchange market, the banking secrecy law and Lebanese expertise in dealing with money are all as perennial as the balmy Mediterranean climate, the exotic beaches and beautiful mountains of Lebanon.

As soon as relative peace returned to the country in late 1976 and the banks reopened in early 1977, most of the funds that were taken out of the country during the civil war began flowing back, augmented by substantial remittances from the Arab States by Lebanese expatriates working there. Total bank deposits quickly rose by about 42 per cent to their pre-war level of £L12bn.

Mr. Michel Khoury, Governor of the Central Bank, estimated recently that Lebanese expatriates' remittances totalled $100m a month, which nicely offsets the balance of trade deficit running at around the same rate.

Another factor that led to the growth of bank deposits was the increase in the number of bank branches from 227 before the civil war to 365 by the end of 1977.

By the end of 1978, total bank deposits registered an unprecedented rise of nearly 70 per cent over the four-year period to £L15bn. However loans and advances did not grow in the same proportion, largely because of the continuing uncertainty in the country.

Both bankers and borrowers were reluctant to commit themselves to lending and borrowing new loans before political and security conditions cleared up.

The bulk of banking operations were geared to finance commerce and businesses with a high rate of turnover to ensure quick repayment of loans. Nevertheless, domestic credits rose from £L4.8bn in 1974 to about £L10bn by the end of 1978.

With long-term investment opportunities still lacking, the banks have been left with an uncomfortable excess of liquidity that remained largely inactive in the beginning but later was channelled to financing speculation in real estate and in foreign currencies, mainly the dollar.

The immediate result of such currency speculation was a depreciation in the exchange rate of the Lebanese pound vis-a-vis the dollar, the pound sterling, the Swiss and French francs as well as other convertible currencies.

Discontent

Since this added fuel to spiralling inflation already running at an annual rate of 35 per cent, a popular wave of discontent began to be felt, prompting Lebanon's central bank authorities to intervene.

Various reasons have been offered to explain why the demand for foreign currencies has outpaced supply. One of these is the fact that the rate of interest on dollar and sterling accounts for example, is much *higher* than the interest on Lebanese bank accounts.

Some bankers have been accused of going out of their way to encourage their clients to convert their Lebanese pound accounts into dollars and make more money.

Another reason is attributed to the general conditions of instability in the country: a slight disturbance in the security situation would immediately push up the demand on foreign currencies.

To arrest this wave of speculation, the Central Bank early this year imposed restrictions on loans in Lebanese pounds to the private sector. According to a Central Bank circular, total new loans must not exceed 20 per cent of loans outstanding on December 31, 1978, or 5 per cent of loans outstanding on April 30, 1979, whichever is the greater.

Further, in a move to absorb part of the excessive liquidity with the commercial banks, the Central Bank ordered that they should increase their mandatory reserves from 10 per cent to 15 per cent of their Lebanese pound liabilities by the end of November. There was also an additional reserve requirement of 40 per cent on credits guaranteed by foreign deposits, except on credits to finance foreign trade.

Central Bank officials hope these measures would remove at least £L120m from the banks, so discouraging speculation in property and foreign exchange, which have depressed the value of the Lebanese pound.

The government also stepped in to absorb the excessive liquidity by issuing Treasury bonds with maturity ranging between three months and five years. More than £L1bn have been raised in this way to finance the government's administrative expenditure over the past couple of years.

Bolster

In an attempt to bolster the value of the Lebanese pound, the rate of interest on short-term Treasury Bills (three months) was also raised from 3 to 4 per cent.

In spite of all the pressure and the adverse repercussions of the war and a 50 per cent drop in economic activity, the Lebanese pound had demonstrated a remarkable strength, thanks to its high gold cover, estimated at more than $3.5bn at current prices.

While the structure of a successful banking system and a free exchange market is already there, it would be wrong to imagine a take-off could take place immediately without drastic action in various areas related to banking.

Apart from the need for a clearly-defined monetary policy and a more effective role by the Central Bank to carry it out, urgent action is required to improve the mail system and telecommunications, including telex and telephones.

The aim, as most bankers tend to agree, is not only to return to normal, but rather to make up for the progress that would have been achieved if conditions were not disrupted by the civil war and its consequences.

Beirut may have lost its role as a channel for funds between the Arab world and the West, but it remains an important financial centre in the Middle East with an equally important part to play.

Tewfiq Mishlawi

هكذا من الأحول

The British new boys at the European Parliament: By Elinor Goodman

When a Tory is not a conservative

EUROPE'S 410 newly-elected MPs arrive in Strasbourg today for the ceremonial opening of the new Parliament fresh from an immersion course in European politics which has left many of them dizzy and rather exasperated with the complexities of European horse trading.

Some felt they would need a whole new set of political antennae capable of tuning in to at least three different wave lengths at once—one national, one European, and a third to pick up the religious and cultural nuances.

For four days last week the new members met in Luxembourg in the political groups which are supposed to unite like-minded politicians across national boundaries and take the place of national parties in the European Parliament. The idea was that the groups should use the time to settle most of the important decisions affecting the power structure of the new Parliament, leaving the formalities, and perhaps a preliminary canter over next year's budget course for the first full session this week.

Uncertainty

This would have meant that by the end of the week the identity of the new President of the Parliament would have become fairly clear and that the membership of the committees would have been in effect agreed between the groups. Things did not work out quite so smoothly. The assumption until Thursday night, when the MPs left for home, was that the candidate of the Centre Right would win the day. But there was enough uncertainty about precisely who that candidate would be to ensure that the question remained the all-absorbing topic of conversation.

After four days of manoeuvring in the goldfish bowl of European politics, the question had gained a momentum of its own which owed very little to the importance or otherwise of the job at stake. It is, in fact, more than ceremonial since the President represents the Parliament in its negotiations with the Council of Ministers. But above all, the choice of a President is an early trial of strength between the parties.

New objection

As a practical introduction to the many dimensions of European horse trading, the exercise could hardly have been bettered. Every time a new name was mentioned some new objection was put forward — almost invariably accompanied by an equally strong argument in the candidate's favour from the other camp.

Mme Simone Veil, the former French Minister of Health, was the original favourite for the nomination. At the beginning of the week, her case seemed straightforward enough. On the strength of an agreement between the Liberal group and the Christian Democrats in the last Parliament, it was supposed to be the turn of the Liberals to provide the candidate of the Centre Right alliance of which the British Tories form the third leg. As a Giscardian, Mme Veil had decided to join the Liberal group and was therefore apparently running under the right colours.

But in practice some members of the Centre Right doubted the validity of both the agreement and of her credentials as a senior member of the European movement. For some members of the British Conservative group, the very fact that she called herself a Liberal was enough to put them off.

Voters at home, they argued, to the evident irritation of their

Mme Veil: plug in to French power?

more Community-minded colleagues, would be appalled to find that they had sent members to Europe only to support a colleague of Mr. David Steel, leader of the British Liberal Party, and, in any case, they said as the arguments whirred to and fro, how could any Giscardian believe like a proper European when it was obvious that they would be at the beck and call of the French president.

Nonsense, replied the more experienced hands in the delegation. Since the French are so obvious a power in the community, it makes sense to plug into their network. And besides, the pro-Veil forces concluded with what they hoped would be the final devastating shot, it always pays to back a winner.

Precisely, agreed her opponents with equal confidence. Mme Veil, they pointed out, is not the assured winner because, though she may be a Liberal, her association with abortion reform in France means that some Catholic members of the Centre Right alliance may not be able to support her. Perhaps in the circumstances, it would be better to have another Italian or an impeccable Liberal European like the former Prime Minister of Luxembourg, M. Gaston Thorn.

So the arguments went on. At the very moment when the MPs left a group of British Conservatives was still trying to put a candidate of its own into the field.

The whole exercise was carried out in what looked at first like a remarkably public manner, but which on closer inspection was shown to be quite as devious as any British political negotiations. Overtures which in Westminster would have been made in dark, discreet corners, were made in public in Luxembourg only to be overtaken by another, equally public, conversation with somebody else later in the negotiations.

Well treated

Underlying it all there were agreements which some members felt were being deliberately concealed from them, and of which nobody seemed quite certain whether they existed or not.

It all took a bit of getting used to for those British MPs with no previous experience of European politics. For a start, there was the surprise of finding that after the rather off-handed way in which they had been treated in Britain, in Luxembourg ordinary MPs are really rather well treated — too well, for some purists in the Labour delegation. Cars are available to run them around and the expenses, paid in what most MPs appeared to regard as Monopoly money, seemed more than adequate to pay for meals and leave enough left over to buy cheap drink in the Parliament's subsidised supermarket.

There was also a slightly surprising degree of informality about the place which has the general air of a summer school for students of mixed ability. Former Prime Ministers walked around without attracting much more interest than those members with little previous political experience. In the canteen, elder statesmen are surrounded by young members of the Italian Left who would have looked equally at home in a street demonstration.

That sort of thing apart, the British members had to come to terms with the unfamiliar way in which the Parliament is organised. Instead of the Government supporters and the opposition facing each other across a deep divide, the six groups—seven if the one formed to protect the interests of independent members survives a proposed change of rules next week—sit next to each other around a semi-circle. Relations with the group next door are not always without stress. But, since it is virtually impossible for any one group to get anything done without the help of another, consensus, rather than adversary politics, is the name of the game.

Members, therefore, cannot afford to be inhibited by the kind of prejudices which their electorates at home might regard as perfectly legitimate. Labels in Europe can have a very different meaning from those at home. A Belgian Liberal, for example, would probably have more in common with a British Conservative than with Mr. Steel.

Identifiable

By and large, the British MPs seemed to adapt to the new rules very well. Most were still easily identifiable as being British and some were persisting with distinctly *non-communautaire* behaviour like criticising a presidential candidate for not speaking English. Others suggested that they should co-operate with the European Liberal Group

HOW THE GROUPS COMPARE

Socialists	112	Liberals	41
Christian Democrats	105	European Progressive Democrats	21
Europ. Democr. Group*	63	Others	24
Communists	44		

* Mostly British Conservatives, French Gaullists and Irish Fianna Fail.

only if it, in turn, promised not to help the British Liberals in their attempt to challenge the validity of the European election result.

But most entered into the spirit of the multi-dimensional plotting with remarkable vigour. Of the two British delegations, it was the 17 Labour MPs who had to swallow hardest. Outnumbered in their Socialist group by members from other countries, some complained that it was impossible ever to get anything finished, and that nobody listened to anybody else. None the less, they have had their successes. Smoking was banned in the Socialist group meetings as a result of a British initiative and by the time the MPs left, the idea of a kind of European Tribune Group of the Left was being discussed.

By contrast, the 59 Tories so dominated their group of 63 that it was barely necessary to speak a language other than English. Nevertheless, most accepted that though the Conservatives might be the biggest single national party in the Parliament, they needed allies from other countries. After much anguish about what Mrs. Thatcher might say and how their constituency associations would take it, they decided formally to acknowledge that the word Conservative, with its strong right wing overtones in some countries, was a handicap when it came to winning friends in Europe. So in future the group will be known as the European Democratic Group.

By changing the name, and the rules of the group so as to enshrine the rights of smaller parties, the Tories are plainly hoping to pick up some of the two dozen or so non-aligned members. Some even nursed more ambitious thoughts about persuading some of the Giscardians to join the fold, and even some of the Liberals.

Experience

At the reception held by the European Democratic Group on the final day, only a sprinkling of outsiders turned up. Nevertheless, Mr. Jim Scott-Hopkins, the leader of the Tory delegation, seemed pleased with his group's performance, if a little weary of having to suppress suggestions that the Conservatives should be fielding a presidential candidate of their own.

By and large, he seemed to feel that despite their lack of parliamentary experience, the majority of his members had shown a good grasp of the situation. Mme. Veil had to come and address the group in her bid for the presidency and their vote could be vital in Tuesday's ballot.

Much as some of them were complaining about the amount of time they had spent on discussing the presidency, virtually all of them were enjoying the power it gave them. In a thoroughly nationalistic way, they were delighted that so influential a French woman as Mme. Veil had to curry favour with them.

Letters to the Editor

A measure of wealth

From the Director-General, Institute of Directors

Sir,—The picture painted by Lord Diamond on the distribution of wealth is misleading. It may be true that share prices staged an encouraging recovery during the period of Chancellor Healey's reign. But the facts behind his conclusions show that personal shareholdings—those that might ascribe to the wealthy—have declined steadily since the early 1920s, with a brief rise between 1974-76 following the catastrophic collapse of share prices in 1974.

Twenty years ago individuals held some 60 per cent of well quoted shares. By the mid 1970s that proportion had been halved. Today's principal shareholders are institutions and pension funds—not to mention trade unions—who invest on behalf of the British working man and woman.

If you adjust the FT index for inflation it would now need to stand somewhere around 1500 just to take account of inflation in the last decade. That is the real measure of the real wealth the so-called rich have to make up.

The fact is that the stock market is decreasingly attractive to the private investor, whose investment should fund new plant and equipment in order that British industry can expand and compete in world markets. If only the stock market did make the investor richer, more people would commit their savings in this productive way.

Walter Goldsmith,
116, Pall Mall, SW1.

Help for small firms

From Mr. David Mortimer

Sir,—Your article describing the possible form of the government's new scheme for financial aid to small and new businesses mentioned one element which could prove to be very significant in increasing the amount of money available, namely the pledge to cover up to 50 per cent of the cost of an investment failing.

The present government does not see its role as being unnecessarily involved with industry, small or otherwise, yet it sees the need to encourage new small companies. By acting as an underwriter, rather than as a financier, its funds would not be committed to the same extent. Instead they would be available for more appropriate government action. Especially as there seems to be no shortage of money for small businesses, only of mechanisms for investing it satisfactorily.

A government underwriting scheme, could, if properly designed, spread the risks inherent in small and new businesses equitably across those best equipped to take it—the particular element of it, the entrepreneur, the financial institutions and the Government. The appropriate rewards would be similarly distributed.

My own experience of raising money for my company has highlighted the problem of security. An entrepreneur, almost by definition has no security to offer. A government agency offering to underwrite a new business venture would increase the attractiveness of it to prospective investors. The appointed agency would have to be approached by the entrepreneur in the same way as he would approach an investor and make his case in a similar fashion.

David Mortimer,
18, The Mall,
Ealing, W5.

Venture capital

From Mr. P. A. Bayliss

Sir,—I read with interest, but some concern, the opinion expressed in your Editorial comment that the best hope for stemming the rise in unemployment in Britain was a resurgence of small business. The industrial and commercial sector in general, and small businesses in particular, have suffered badly during the last five years from the effects of recession, inflation and price control. Real returns on investment estimated by the Bank of England at 4.7 per cent pre-tax are a most inadequate background against which to attract capital to back new entrepreneurs. The recent Budget was a tremendous step forward, but you rightly say that it will take years for tax changes to reverse past trends and that there is still much to be done to divert more of Britain's personal savings into venture capital.

I would like to emphasise, in the meantime, the absolute necessity of exempting small businesses from credit squeezes. The independent businessman relies heavily upon the banks for capital, which though technically repayable on demand, is an essential part of its permanent resources. Inflation particularly has eaten into the capacity of the independent businessman to finance himself; hence his rapidly increasing interest in equipment leasing which, at present, is proving an efficient means of providing medium term capital. Nothing should be done to restrict the availability of money of this kind.

When the Association met Mr. David Mitchell, the Under Secretary responsible for small firms, its representatives emphasised these views and also the need to press on with the reform of the taxation of capital, to stimulate its mobility. There are still private individuals prepared to back enterprise, but they recognise that it involves risk which cannot be justified if the transfer of funds into new firms involves the payment of taxes on paper profits.

P. A. Bayliss,
Chairman,
National Economic Committee,
The Association of Independent Businesses,
38, Chancery Lane, WC2.

Tobacco stains

From the Chairman, Tobacco Advisory Council

Sir,—Mr. Townsend is, with respect, at fault in stating (his letter, July 12) that cigarette smokers are highly favoured in tax terms, while his comparison with soap simply will not wash. Firstly tax on average now represents more than 71 per cent of the cost of cigarettes (compared with 13.05 per cent of the cost of soap), so not only does taxation inflate the cost of cigarettes by a factor of 3½, but tobacco products, along with other taxable goods and services, have borne the full impact of the recent increase in VAT.

Mr. Townsend is equally wrong in suggesting that the revenue will lose by the adjustment in the balance of specific and *ad valorem* duties on cigarettes when this takes effect next month. The impact on target revenue for 1979-80 will be negligible; also, sadly for smokers, the Chancellor of the Exchequer can always increase the level of tax on tobacco products for revenue purposes, should be consider this the right thing to do.

(Sir) James Wilson,
Glen House,
Stag Place, SW1.

English attitudes

From Mr. Michael J. Lodge

Sir,—I was interested to read John Baker White's letter published on June 26, which alluded to a new "English Disease" of pessimistic management. While fully supporting his contention, I wonder if it is such a new phenomenon.

During the past 10 years, I have been a member of Boards in Britain, Holland, Canada and the U.S. For the whole of that period, I found that British senior management is far more inclined than its foreign counterparts to take a sceptical and defeatist attitude to the admittedly severe opposing forces at work in the UK business environment. I should add that I am British myself and am not, therefore, being a critical outsider.

Few British managers will ever face up to the paradox that most of our better-off European neighbours have more highly paid workers, more restrictive labour legislation and generally more socialistic administrations. Few will admit that, since the war, management in those countries has accepted its duty to lead and has sought out new markets, invested the necessary capital and established organisations which in general and in sum have produced economies that are now much more effective than the UK's in creating and distributing wealth.

During a recent visit to the UK since the General Election, I was surprised to run into the same old gloom and pessimism almost everywhere I went. The prospect of five years of pro-management Government and dramatically reduced personal taxation seemed to be generating zero enthusiasm.

A particularly asinine source of gloom appears to be North Sea oil. A great number of people are determined to diminish its importance and its life span and almost to apologise for its windfall nature. Of course, it's an accident of geology but so too are the natural resources of any country on earth. The Americans say "It's better to be lucky than smart" and so, being lucky enough to have the oil, we should breathe a quick prayer of thanks and get down to using it to create something more durable.

British managers have had a raw deal from society in the last decade in terms of pay, taxation and status. However, unless they now respond to Margaret Thatcher's challenge by taking a greater quantity of fundamental decisions with greater courage and greater optimism, many people's suspicions about the quality of UK management will be confirmed and their reputation among their puzzled colleagues elsewhere in the world, already pretty low, will be almost impossible to recover.

I believe that the intellectual ability of British managers is of a high order; only their attitudes are at fault. They will never have a greater stimulus to change their attitudes than they have now.

Michael J. Lodge,
442, Southchester,
Houston, Texas.

Kings and reviewers

From Mr. G. J. Melmoth

Sir,—I was sorry to see Lord Snow getting carried away in his review last Saturday of Thea Holme's "Caroline of Brunswick" by his contempt for that much traduced Monarch, George IV, describing him in one purple patch as "soft, cowardly, faithless and (without any) core of character whatsoever." The Iron Duke himself testified as to the King's political courage on occasion and his surgeon marvelled that the King, when elderly, suffered a painful cyst operation without complaint.

In Philistine Britain, the "faithless" George kept faith with a host of artists, writers and musicians, encouraging and supporting them to our greater benefit today. These are not the acts of a man without character. He was manifestly indolent, vain and spend-thrift. The King was also fat, and as Lord Snow says, "he became grotesquely fatter," but your distinguished and Whiggish reviewer, who carries a pound or two as well, as I recall, ought not to hold that against him.

G. J. Melmoth,
"Throstles' Nest,"
Whitney Croft,
Higher Fence Road,
Macclesfield, Cheshire.

Pleasure boat profits

From the Chairman,
Canals and Navigations Alliance

Sir,—As chairman of the newly-formed Canals and Navigations Alliance, which aims to restore the inland waterways system and numbers both boat builders and hire cruiser operators among its members, I was surprised to learn from Mr. McLain's article (July 4) that a pleasure boat can yield up to £4,000 per annum in profits. A good summer season lasts a maximum of 32 weeks and, although an eight-berth narrow boat could earn up to £6,000 if it were fully booked throughout the season and a four-berth boat would earn £4,150; both these figures refer to revenue and do not take into account repairs and maintenance, booking fees, depreciation (a hire-boat will need to be replaced after about five years), labour, licensing and the percentage levy on turnover for yards which British Waterways Board is introducing.

I suggest that potential investors look carefully at the figures before committing themselves to an industry which operates on an old and decaying waterways system and which has had several very bad seasons in the recent past.

John H. Dobson,
Canals and Navigations Alliance.
25 Victoria Street,
London SW1

Today's Events

GENERAL

UK: Mr. James Prior, Employment Secretary, meets British Institute of Management and Institution of Works Managers on proposed employment legislation changes, London.

Stock Exchange expands Talisman computer settlement of bargains to 75 per cent.

Ladbrokes apply for renewal of casino licences, opposed by Playboy Club and Metropolitan Police, hearing resumes, Central Hall, Westminster.

Sir Kenneth Cork, Lord Mayor of London, attends Clockmakers' Company dinner, Goldsmiths' Hall.

Royal International Horse Show opens, Wembley (until July 21).

Harrogate Gift Fair (until July 19).

Overseas: Mr. Francis Pym, Defence Secretary, meets Dr. Harold Brown, U.S. Secretary for Defence, in Washington (until July 18).

Mr. Moshe Dayan, Israeli Foreign Minister, visits Holland.

EEC Finance Ministers meet in Brussels.

EEC Economic and Social Committee plenary session, Brussels (until July 18).

PARLIAMENTARY BUSINESS

House of Commons: European Assembly (Salaries and Pensions) Bill, remaining stages. Debate on preliminary draft Community budget.

House of Lords: Peers' expenses motion. Limitation Amendment Bill, committee. Companies Bill, report. Dealings with Witnesses Bill, second reading. Immunities and Privileges Orders. Northern Ireland Orders. Debate on HM Inspectors of Police.

COMPANY RESULTS

Final dividends: Associated Leisure. Crown House. Hampton Trust. Montague L. Meyer. Ratners (Jewellers). Vinten Group. Interim dividends: Alexanders Discount Company. Robert H. Lowe and Co. Meggitt Holdings. Wearra Group. Interim figures: Deason Holdings.

COMPANY MEETINGS

See Financial Diary on page 19.

OFFICIAL STATISTICS

Balance of payments current account and overseas trade figures (June). Retail sales (June provisional).

Mercantile House offer of 2m shares at 160p

AN OFFER for sale of 2m shares in Mercantile House, a money broker and financial services group, is being made on behalf of the company by S. G. Warburg and Co., the merchant bank.

The application list opens on Thursday and the issue price is 160p. Of the 2m shares being offered for sale, 620,000 are new shares and the remainder are coming from existing shareholders, including The J.P. Cabot Equity Corp. Cabot acquired its stake (1.12m shares) in 1977 when it sold its New York based foreign exchange broking business to Mercantile.

According to Mr. John Berkshire, Mercantile's chairman, Cabot is selling its shares in order to concentrate on its other activities—principally a large housing estate in the U.S.

Around £15.5m of Mercantile's £16.3m turnover comes from M. W. Marshall, its money broking subsidiary. These activities involve various markets in a number of international financial centres and cover foreign exchange, sterling and other currency deposits as well as money market paper such as certificates of deposits.

Saturn, the other operating subsidiary of the group, started trading in 1974 and its activities include advice on equipment leasing for UK local authorities and the management of two short term money market funds.

Net tangible assets of the group at April 30 were £2.38m (or 56p a share) and the pre-tax profit for last year amounted to £2.6m. The dividend was 10.72p and directors have forecast that, in the absence of unforeseen circumstances, a similar dividend will be paid on the new capital this year.

Directors have not made a forecast for 1979/80 profit but indicate that the earnings attributable to shareholders would be around £1,357,000 (assuming a profit similar to 1978/79 and adding to that interest earned on the extra cash raised by the issue). Based on the projection, the dividend is covered 2.3 times.

Preference is being given to application from employees of the company up to a total of 200,000 shares. Share certificates will be issued on October 3.

Cazenove are the brokers.

● *comment*

There is not a great deal of interest in specialist financial stocks such as money brokers and insurance brokers at the moment but Mercantile's issue price seems to take that into account. With a well covered dividend and a yield of 9.6 per cent on the offer price of 160p plus a p/e of 8.5 the offer should go well. Comparative yields on insurance brokers average 7.6 per cent and the median yield for miscellaneous financial institutions is around 8.8 per cent. The group is well known to the City and already has a sizeable institutional following. The fact that Cabot is selling out is more of a bull than a bear point in that it removes a large block of shares that could have overhung the market. Also it is selling to turn its attention elsewhere and not because it lacks any faith in Mercantile. Profit growth in the past has been strong on the back of growing demand for both its money broking and financial services sides. The relaxation of UK exchange controls should help the continued growth, particularly of the broking business.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims—Alexanders Discount, A. Kershaw, Robert H. Lowe, Meggitt Holdings, Rank Organisation, Wearra.

Finals—Associated Leisure, Commercial Bank of the Near East, Crown House, Hampton Trust, Kakuzi, Monteyne, L. Meyer, Ratners (Jewellers), Vinten.

FUTURE DATES

Interims—	
Albion	July 25
Jamesons Chocolates	July 19
Meldrum Investment Trust	July 17
Finals—	
Allnatt London	July 19
Atlantic Assets Trust	July 18
Dyson (J. and J.)	July 27
Neepsend	July 26
Negretti and Zambra	July 19
Nova (Jersey)	July 20
Rosgill	July 24
Trafford Carpets	July 17
Wallis Fashion	July 20

Leaderflush Holdings rises to £136,693

Pre-tax profits of Leaderflush (Holdings), flush door manufacturer, rose from £120,237 to £136,693 in 1978, on turnover marginally ahead at £1.65m, against £1.61m.

The directors say trading in the current half has been hit by the lorry drivers' dispute and the bad weather.

After tax of £10,253 (£3,400), stated earnings per 10p share are up from 6.17p to 6.89p. The net final dividend of 0.525p lifts the total to 1.0275p, compared with last year's single payment of 0.33p. There is an extraordinary credit of £15,000 (£35,759).

T. Whites well ahead at £4.71m

Sales of Timothy Whites, subsidiary of Boots Company, rose from £27.91m to £32.2m for the year ended March 31, 1979, and taxable profits came well ahead at £4.71m, against £2.67m.

Tax for the period took £1.43m, compared with a restated £1.05m, leaving a net profit of £3.28m (£1.62m).

FT Share Information Service

The following securities have been added to the Share Information Service appearing in the Financial Times:

ACM (Section: Mines—Australian);
Chamberlin and Hill (Engineering);
Deltight Industries (Motors—Components);
New Court Natural Resources (Oils);
Petrolane (Overseas — New York);
Security Pacific Corporation (Overseas—New York);
West Coast Holdings (Mines—Australian).

Thermo-Skyships slow take-off

BY JOHN MAKINSON

The Thermo-skyship project has not yet taken off yet. Stockbrokers Laing and Cruickshank are currently accepting subscriptions for a scheme designed to resurrect the airship as a means of cheap and quiet travel, but the response has not so far been overwhelming.

Mr. Julian Benson, who is managing the Laing and Cruickshank package, for the skyship company, says there has been a number of small acceptances from private individuals but that the investing institutions are still standing on the sidelines.

He believes, however, that the "feel" of the issue is now much more positive and hopes that institutions will come in at the last moment. The offer closes on July 27.

Subscribers are being asked to raise an eventual total of £6.4m for the project in £1,000 units, which mix ordinary shares, preference shares and unsecured loan stock. The package is partly paid—30 per cent now and the rest about a year later.

The issue is being supported by European Ferries, which has agreed to put up between 35 and 60 per cent of the capital but Mr. Benson would like the public to subscribe as much as possible. The offer is not underwritten so unless the full amount is met the whole financing scheme will have to be abandoned.

The Isle of Man company producing the machine, Thermo-Skyships Limited, is going ahead with the recruitment of technical and design staff in order to have a prototype flying by 1981. Tests have been carried out and Major Malcolm Wren, the company's chairman and managing director, says routes are already being planned.

St. Andrew Trust ahead

PROFITS OF St. Andrew Trust improved from £482,608 to £504,957 for the first six months of 1979. Tax takes £182,213 compared with £183,634.

Earnings per 25p share are up from 2.5p to 2.71p and the interim dividend is raised to 2.25p (2p) net—last year's total was 4.9p on £968,972 taxable revenue.

Net asset value, after deducting prior charges at par, is shown at 157.9p (161.4p).

Mid year rise for Corn Exchange

Revenue of Corn Exchange Co for the half year ended June 30, 1979 was higher at £205,583 against £183,529 subject to tax of £107,000 compared with £92,500.

Total income for the period was £289,007 (£268,718).

Pre-tax revenue for the whole of 1978 was £379,000.

As already known the interim dividend is increased to 2.5p (1.0881p) net per 10p share and the directors expect the final payment to be a similar amount—last year's final was 1.13135p.

SIME DARBY LONDON

More than 90 per cent of Sime Darby London convertible preferred ordinary shares have been converted. The balance will be compulsorily converted.

BIDS AND DEALS

Finlas forecasts £675,000

Finlas Holdings, for which Mr. Frank Sanderson is making a £2.57m bid on behalf of his private company, Chailey Securities, is forecasting profits of £675,000 for the year to September, compared with £415,000 for the 18 months to last September.

The forecast is hedged about with a number of conditions not least the continuing ability of the building societies to meet demand for mortgages. Coopers and Lybrand, Finlas' accountants, also underline the difficulty of forecasting housing sales in their accompanying letter.

RENWICK GROUP

Equity Capital for Industry says arrangements have been completed whereby whole of ECI's holding of 10 per cent convertible cumulative redeemable preference shares of Renwick Group amounting to £677,490 nominal have been placed with institutions.

Shares were placed at 156p, compared with an issue price of par in September, 1977. At the time of the investments, both parties saw the association as accelerating Renwicks' recovery from loss-making period in 1975 and 1976. Because this has been achieved both parties see ECI's role as having finished.

DOUGHTY PLANS NEW TRUST

Mr. Roger Doughty, who recently resigned from the Tyndall Group and London Wall Group of companies, intends to start a new money management and unit trust group based in the City.

By arrangement with the Tyndall Group, Mr. Doughty is acquiring London Wall Money Management which operates portfolio management services for institutional and private investors.

London Wall Money Management, which will be part of Mr. Doughty's new group of companies, will change its name. It has some £30m under management.

SHARE STAKES

Elswick Hopper — J. R. Williams, director, has sold 100,000 shares. Beneficial holding now 212,610.

SELLING OFF STATE-OWNED COMPANIES

No easy task to go private

BY MAX WILKINSON

THE GOVERNMENT is discovering that it is not as easy as it may have first appeared to sell thriving State-owned companies back to the private sector.

Its general intention of hiving off the more profitable parts of the National Enterprise Board's portfolio has run into a thicket of strategic problems which have provided the background for tough infighting between the companies, the Department of Industry and the NEB.

In the electronics sector, which provides two of the most obvious candidates for sale, Ferranti and International Computers Limited, the problems are particularly intricate. They include the growing threat of foreign competition, much Government-subsidised; the whirligig pace of new technology requiring huge development funds; and a series of different strategies for supporting and rationalising the industry.

Into these tangled forces the Government has interwoven the desire to increase the vigour and influence of market capitalism, and the results are by no means easy to predict.

One of the central uncertainties is the fate of Ferranti, largest of the profitable companies controlled by the NEB.

Straightforward

With pre-tax profits of £9.9m on sales of £192m in the last financial year, and a healthy prospect, Ferranti looks a straightforward proposition for return to the private sector under a Conservative Government.

The task of the state, it can be argued, is over. The Government's rescue operation in 1975 has saved the company from collapse.

Since then its sales have increased by 122 per cent and trading profits have increased ninefold. Although the last results showed a slowing in the overall rate of growth, the main electronics companies increased profits by an impressive 60 per cent.

The troublesome transformer business is still making losses. But it has been brought under control and looks now as if it could be closed without too severe an upheaval.

It employs only 350 people, compared with over 1,000 four years ago.

Altogether, therefore, Ferranti looks as if it should be reasonably attractive to private capital, if the NEB should decide to sell its 50 per cent stake, valued at about £40m.

But first the Government and the NEB must decide how a sale should be made, which requires precise thinking about the motive for selling.

If the main object is to raise money to help reduce the general tax burden, the 50 per cent stake could be sold to the highest bidder.

A company bidding for control of such a high technology company, with good military contracts, would doubtless pay a premium for the shares and realise a handsome profit for the state.

Racal, the fast-growing military radio and communications company, would almost certainly make a bid as might Philips and several American multinationals.

Ministers are therefore confronted with whether to let an important supplier of defence equipment fall into the control of another, possibly foreign company.

The question of how much Ministers, and particularly the Prime Minister, will allow the pure theory of market capitalism to be diluted by industrial and strategic issues is still being vigorously debated in the Department of Industry.

Different view

Ferranti's management would almost certainly resist a plan to sell it to the highest bidder, but shareholders, including the Ferranti family, which holds 20 per cent, might take a different view.

The second option now being discussed would be to place the shares on the market in such a way that they would be distributed widely without any one organisation having the controlling stake.

This would probably mean the NEB's shares would realise less than if they were sold as a block. It might also result in restoring to the Ferranti brothers a large measure of influence, if not control, over their family firm.

Whether this would be desirable in view of the recent history of success under new management is another delicate issue which Ministers can scarcely avoid.

A third option would be to lump the Ferranti holding together with the 24.4 per cent stake in International Computers and the other NEB electronics interests in a new "high-technology" holding company, whose shares could be floated on the open market.

This idea, put forward by Sir Leslie Murphy, the NEB chairman, has attracted a certain amount of derision within the Department of Industry and outside it.

Expertise

The Department's objection is that the NEB's companies are too diverse to make sense as a unit, and that a holding company would have neither the management structure nor the expertise to weld them together in any useful way.

The objection from City analysts is that investors attracted by Ferranti might be unwilling to take a simultaneous gamble on ICL or vice versa. And very few institutions, it is said, will at the same time wish to put their money on such speculative dark horses as INMOS, the NEB's semi-conductor venture, or NEXOS its new office equipment company.

For these reasons, Sir Leslie's plan will almost certainly be dropped overboard with a minimum of ceremony.

There remains a final possibility, that the NEB will be asked to sell a portion of its stake in Ferranti, but retain a blocking share of, say, 20 per cent. This is the cautious policy, favoured for obvious reasons by the Ferranti management and by some people in the NEB.

Yet caution may not prevail. The Government's determination to fan the fires of private capitalism has also stirred a long-smouldering desire in the Department of Industry to weld the electronics industry into larger, more powerful units.

Conservative arguments for selling State holdings have fallen unexpectedly into step with interventionist ideas for rationalisation. If, for example, the outstandingly successful Racal wants to buy Ferranti, a number of influential voices will ask: "Why not?"

INTNL. COMPANIES and FINANCE

Short-term issue plan by Swiss National Bank

BY NICHOLAS COLCHESTER

MONEY MARKET paper worth some SwFr 200m is to be issued for the first time by the Swiss National Bank from July 17 to 19. Three-month certificates, which will not be obtainable by foreigners, are to be offered in an auction-like process, bids as a percentage of the nominal issue amount, and to be of at least SwFr 500,000 each.

The short-term certificates, whose issue marks the launch of a long-heralded plan to expand Switzerland's embryonic money market, will be issued on a discount basis. They will not be subject to Federal Turnover Tax, nor will the 35 per cent withholding tax be levied on certificates apportioned to a bank for its account. Withholding Tax will be charged on the issue discount, however. The certificates, which will themselves be discountable or usable as security against loans, will be recorded in a special money-market register by the national bank.

As had been indicated in April of this year, the certificates will initially be issued only on behalf of the Confederation. Following the final passing last week of the revised National Bank Law, however, the Monetary Authority would also be able to issue similar paper at a later date.

Professor Dr. Leo Schuermann, vice president of the National Bank, has already said that it is foreseen that public authorities, commercial banks and in due course all first-class borrowers might subsequently be able to issue money market certificates.

The issue prospectus for the float is to appear in today's edition of the Swiss Official Gazette.

National Trading shows sharp advance

By Jim Jones in Johannesburg

NATIONAL TRADING, the South African manufacturer of pipes and electrical transformers and distributor of engineering equipment has reported a 55 per cent pre-tax profit improvement to R2.15m ($2.5m) for the six months to June 30, from R1.39m in the same period of the previous year. This compares with pre-tax earnings of R3.61m for the whole of 1978.

On first-half per share earnings of 23.7 cents, compared with 19 cents, the interim dividend has been lifted to 6 cents, from 4 cents in order, the management says, to reduce the discrepancy between the interim and final payments. In 1978, from second-half earnings per share of 21.9 cents a final dividend of 10 cents was declared.

On trading prospects, the directors estimate that last year's second-half earnings improvement has been maintained and that total dividends this year should not be less than in 1978.

AMP sees second quarter rise

HARRISBURG — The U.S. electric terminals manufacturer AMP expects to report earnings for its second quarter ended June 30 of about $80m, or 83 cents a share, compared to net of $74.2m or 66 cents in the period a year earlier, said Mr. J. D. Bremner, president of the company.

The earnings growth is attributed in part to higher sales. Second quarter sales climbed to a record $351m, up 27 per cent from $198.1m a year earlier.

The company's previous highest quarterly sales were the $332.1m in this year's first quarter when net was a record $38.8m or 80 cents a share.

First half earnings were about $58.8m or $1.63 a share compared to $73.8m or $1.27 and sales were about $683m, 28 per cent above last year's $375.9m.

For the entire year, AMP said it does not find "unreasonable" estimates that it will earn between $3 and $3.30 a share on sales of $965m to $985m. In 1978, the company earned $2.67 a share on sales of $801.1m.

"Sales and earnings will probably show the usual mild seasonal dip in the third quarter," Mr. Bremner said, "and then should reach new highs in the fourth quarter unless the outlook changes significantly in the coming months."

AP-DJ

Alberta Gas opens tender

CALGARY—Alberta Gas Trunk Line will begin the cash tender offer to purchase common shares of Husky Oil for $48 per common share and Series E stock purchase warrants at $48 per share, less C$21 per warrant, net.

The company said the offer satisfies obligations from agreements made in May with Mr. Glenn Nielson, former chairman of the Board of Husky. On June 19, Alberta Gas Trunk purchased a total of 2m Husky common shares at a price of U.S.$48 per share.

The company said Husky has 11m shares and 236,860 Series E stock purchase warrants outstanding. Alberta Gas said it already owns 68 per cent of Husky's common shares.

It said the dealer managers for the offer in Canada are Dominion Securities and Pitfield Mackay Ross and in the U.S. First Boston Corporation.

Reuter

Bank of China to open branch in New York

NEW YORK — Mr. Zhang Jingfu, the Chinese Finance Minister, said preparations are being made to open a Bank of China branch here. He gave no details.

The opening of a Bank of China office in the U.S. had been delayed pending agreement on the settlement of private property claims.

Mr. Zhang said that China is seeking to expand trade with the U.S. and other nations. He said China has already established contacts with 20 U.S. banks, and expects to expand such relationships.

Reuter

Overnite moves ahead

RICHMOND — The teamsters and independent trucking strikes this spring meant trouble for most major trucking companies, but for Overnite Transportation, which had neither union nor independent contracts to affect its operations, the strikes brought extra business and record revenue and earnings in the spring quarter, the company said.

Overnite's net income for the second quarter rose by 46 per cent to an estimated $5.5m or $1.10 a share from the year ago $3.8m or $1.18 a share, Mr. Roy S. Cayton, executive vice president said. Revenue rose 21 per cent to about $61m from $50.9m.

That lifts net income for the first half by 39 per cent to about $8.5m or $2.60 a share, on revenue 20 per cent up to about $114m.

AP-DJ

Scientex seeks German funding

LOS ANGELES — Scientex Corporation has arranged for $2m of its convertible debentures to be distributed by Standard Capital 2000 of Munich.

The bonds will not be sold in the U.S. They will have a five-year term, bear interest at 10 per cent and be convertible into Scientex stock at $5 a share.

Reuter

CURRENCIES, MONEY and GOLD

Dollar on edge

The speech this weekend by President Carter probably holds not only the key that could ensure or destroy his political future, it is also of vital importance to the dollar. Since the sudden postponement of the President's original broadcast, the foreign exchange market has been waiting patiently. But as time wore on so people's patience wore out and the dollar suffered accordingly. There have of course been other considerations just recently that have contributed to the dollar's softish undertone, but the pressing demand for some sort of forceful national energy policy has been uppermost in the minds of the majority.

Thursday's decision by the West German authorities to increase the discount and lombard rates to 5 per cent and 6 per cent respectively is likely to have far reaching implications. Differentials between U.S. and European interest rates have narrowed quite considerably over the past month and have provided the U.S. administration with more food for thought, although at the moment it would seem they are suffering a nasty bout of indigestion.

Higher German interest rates will also leave their mark on the European Monetary System. A response from the Netherlands was only an hour or two forthcoming when the Dutch authorities announced a rise of their bank rate to 8 per cent. This was the second rise in little over a week and while Dr. Otmar Emminger, the Bundesbank President, stressed that the rise in German rates merely reflected a catching up process, it is also contributing quite handsomely towards creating a vicious circle.

For the time being at least, there was no significant reaction within the European Monetary System. France increased its domestic money rates and Treasury bill rates, but this was as much a reflection of the effect of higher oil prices and inflation trends as anything else. Elsewhere demand for sterling increased during the latter part of the week, as the possibility of an early cut in MLR receded.

	July 13	July 16
Gold Bullion (fine ounce)		
Close	$287¾-288½ (£129.5-129.7)	$290½-291¼ (£130.2-130.6)
Opening	$289¾-290⅛ (£130.2-130.6)	$290½-291¼ (£130.0-130.4)
Morning fixing	$288.60 (£129.516)	$290.75 (£130.148)
Afternoon fixing	$287.45 (£128.558)	$29.75 (£130.523)
Gold Coins, domestically		
Krugerrand	$296½-298½ (£133¼-134¼)	$299-301 (£134-135)
New Sovereigns	$74½-76½ (£33½-34½)	$76¼-77¼ (£33¾-34¾)
Old Sovereigns	$95-97 (£42¾-43¾)	$95½-97½ (£42¾-43¾)
Gold Coins, internationally		
Krugerrand	$296½-298½ (£133¼-134¼)	$299-301 (£134-135)
New Sovereigns	$74½-76½ (£33½-34½)	$75¼-77¼ (£33¾-34¾)
Old Sovereigns	$96-97 (£42¾-43¾)	$95½-97½ (£42¾-43¾)
$20 Eagles	$417-422	$421-426
$10 Eagles	$234-239	$237-242
$5 Eagles	$169-174	$171-176

CURRENCY RATES

July 13	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	14	0.565892	0.630417
U.S. $	9½	1.26618	1.37861
Canadian $	[illegible]	[illegible]	[illegible]
Austria Sch.	[illegible]	[illegible]	[illegible]
Belgian F.	[illegible]	[illegible]	[illegible]
Danish K.	[illegible]	[illegible]	[illegible]
D mark	5	[illegible]	[illegible]
Guilder	8	[illegible]	[illegible]
French Fr.	[illegible]	[illegible]	[illegible]
Lira	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]
Norwgn. K.	[illegible]	[illegible]	[illegible]
Spanish Pta.	[illegible]	[illegible]	[illegible]
Swedish Kr.	[illegible]	[illegible]	[illegible]
Swiss Fr.	[illegible]	[illegible]	[illegible]

OTHER MARKETS

July 13	£	$		£ Note Rates
Argentina Peso	2959-2979	1325-1335	Austria	29.0-30.0
Australia Dollar	1.9715-1.9755	0.8845-0.8860	Belgium	68.0-69.0
Brazil Cruzeiro	57.58-58.58	25.80-26.25	Denmark	11.60-11.75
Finland Markka	8.55-8.70	3.8575-3.8585	France	9.35-9.50
Greek Drachma	n.a.	n.a.	Germany	4.00-4.10
Hong Kong Dollar	11.40-11.42	5.1390-5.1410	Italy	1,800-1,825
Iran Rial	159.70-166.35	72-75	Japan	480-490
Kuwait Dinar (KD)	0.607-0.617	0.2760-0.2761	Netherlands	4.40-4.50
Luxembourg Frc.	65.35-65.45	29.33-29.35	Norway	11.15-11.30
Malaysia Dollar	4.7880-4.7980	2.1520-2.1535	Portugal	102-106
New Zealand Dlr.	2.1830-2.1890	0.9795-0.9820	Spain	145-148
Saudi Arab. Riyal	7.40-7.50	3.3580-3.3595	Switzerland	3.60-3.70
Singapore Dollar	4.7880-4.7980	2.1625-2.1635	United States	2.23-2.24
Sth. African Rand	1.8745-1.8785	0.8410-0.8430	Yugoslavia	41-44

Rate given for Argentina is free rate.

THE DOLLAR SPOT AND FORWARD

July 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	2.2160-2.2300	2.2280-2.2300	[illegible]	[illegible]	[illegible]	[illegible]
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nethlnd.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK, Ireland and Canada are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

THE POUND SPOT AND FORWARD

July 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	2.2160-2.2300	2.2280-2.2300	0.65-0.55c pm	3.23	1.90-1.80 pm	3.32
Canada	2.5740-2.5910	2.5885-2.5905	0.75-0.65c pm	3.24	2.00-1.90 pm	3.01
Nethlnd.	4.46-4.51	4.46½-4.47½	2⅛-1⅝c pm	5.03	5⅛-4⅞ pm	4.03
Belgium	65.10-65.50	65.35-65.45	10c pm-par	0.51	25-15 pm	0.88
Denmark	11.67-11.74	11.72½-11.73½	1½-½ore dis	0.56	1-3 dis	−0.47
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
W. Ger.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switz.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 66.65-66.75c pm. Six-month forward dollar 3.60-2.90c pm; 12-month 4.82-4.82c pm.

EXCHANGE CROSS RATES

July 13	Pound Sterling	U.S. Dollar	Deutschem'k	Japan'se Yen	French Franc	Swiss Franc	Dutch Guild	Italian Lira	Canada Dollar	Belgian Franc
Pound Sterling	1.	2.229	4.068	485.0	9.465	3.680	4.470	1836	2.590	65.40
U.S. Dollar	0.449	1.	1.825	217.5	4.246	1.651	2.005	823.5	1.162	29.34
Deutschemark	0.246	0.548	1.	119.1	2.327	0.905	1.099	451.1	0.637	16.08
Japanese Yen 1,000	2.064	4.601	8.396	1000.	19.53	7.596	9.225	3787.	5.346	135.0
French Franc 10	1.054	2.350	4.288	510.8	10.	3.880	4.713	1935.	2.730	69.90
Swiss Franc	0.272	0.605	1.105	131.7	2.577	1.	1.215	498.8	0.704	17.77
Dutch Guilder	0.224	0.498	0.910	108.4	2.121	0.823	1.	410.6	0.579	14.63
Italian Lira 1,000	0.545	1.215	2.217	264.1	5.169	2.005	2.436	1000.	1.411	35.64
Canadian Dollar	0.386	0.861	1.571	187.1	3.662	1.421	1.726	708.6	1.	25.25
Belgian Franc 100	1.530	3.408	6.219	740.6	14.49	5.627	6.833	2805.	3.959	100.

LONDON MONEY RATES

July 13 1979	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount market deposit	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 days or 7 days notice	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One month	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nine months	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Two years	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Local authority and finance houses seven days' notice, others seven days fixed. * Long-term local authority mortgage rates nominally three years 12¼-12½ per cent; four years 12⅝ per cent; five years 12¾-12⅞ per cent. ♦ Bank bill rates in table are buying rates for prime paper. Buying rate for four-month bank bills 13⅛ per cent; four-months trade bills 14¼ per cent. Approximate selling rate for one-month Treasury bills 13¼ per cent; two-months 13 per cent; three-months 13 per cent. Approximate selling rate for one-month bank bills 14 per cent; two-months 13 per cent; three-months 13 per cent; one-month trade bills 14⅝ per cent; two-months 14½ per cent; three-months 14¼ per cent. Finance House Base Rates (published by the Finance Houses Association) 13 per cent from July 1, 1979. Clearing Bank Deposit Rates for small sums at seven days' notice 10½-12 per cent. Clearing Bank Rates for lending 14 per cent. Treasury Bills: Average tender rates of discount 13.3481 per cent.

MONEY RATES

NEW YORK	
Prime Rate	11.5
Fed Funds	10.3125
Treasury Bills (13-week)	9.11
Treasury Bills (26-week)	9.17
GERMANY	
Discount Rate	5
Overnight Rate	5.85
One month	6.25
Three months	6.80
Six months	7.35
FRANCE	
Discount Rate	9.5
Overnight Rate	9.375
One month	9.5625
Three months	9.875
Six months	10.5625
JAPAN	
Discount Rate	4.25
Call (Unconditional)	5.5625
Bills Discount (three-month)	6.3125

PENDING DIVS.

For the convenience of readers the dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements, except where the forthcoming Board meetings (indicated thus*) have been officially published. It should be emphasised that the dividends to be declared will not necessarily be at the amounts or rates per cent shown in the column headed "Announcement last year."

	Date	Announcement last year		Date	Announcement last year
*Acrow	Aug. 7	Final 1.554	*Inchcape	July 28	Final 3.0
*Alexanders Discount	July 18	Int. 4.5	Initial Services	July 27	Final 6.051
*Allied Colloids	July 17	Final 1.117	LRC Intnl.	July 19	Final 1.53
Ault and Wiborg	Aug. 9	Int. 0.72	Letraset Intnl.	Aug. 9	Dec. Int. 4.6
Automotive Products	Aug. 8	Int. 0.75	Lex Service	Aug. 17	Int. 1.5
*BICC	Sept. 4	Int. 2.5	*Lloyds Bank	July 20	Int. 4.635
*Barclays Bk.	July 26	Int. 8.05	*Magnet and Southerns	July 17	Final 5.432
Barrow Hepburn	Aug. 16	Int. nil	*Marley (Mont. L.)	July 16	Final 2.873
*Bibby (J.)	Aug. 15	Int. 3.0	*Midland Bk.	July 27	Int. 5.6
*Birmid Qualcast	July 19	Int. 1.5	*NatWest	July 24	Int. 6.882
British Aluminium	Aug. 16	Int. 29.851	Nottingham Manf.	Aug. 15	Int. 1.0
British Dredging	July 10	Final nil	Pye	Aug. 15	Int. 1.226
Carrington Viyella	Aug. 9	Int. 0.67	*Rank Org.	July 18	Int. 4.0
*Commercial Union	Aug. 14	Int. 2.883	Ratners	July 18	Final 2.2512
Corah	Aug. 17	Int. 0.8	*Rentokil	Aug. 2	Int. 0.72
Davy Corpn.	July 25	Final 7.425	Royal Insce.	Aug. 17	Int. 7.272
*Distillers	July 18	Final 4.8842	Security Services	Aug. 10	Int. 1.25
Dixons Photographic	Aug. 3	Final 1.51	Smith and Nephew	Aug. 15	Final 0.9105
*Dowty	July 19	Final 2.256	Staflex Intl.	July 28	Final nil
Evode	July 17	Int. 0.3629	*Stenhouse	Aug. 23	Int. 1.825
*Fitch Lovell	July 26	Final 2.812	Stock Conversion	July 26	Final 1.0217
*Fodens	July 18	Final 3.35	Sunley (B.)	Aug. 8	Final 2.7
*General Accident	Aug. 6	Int. 4.125	Taylor Woodrow	July 25	Int. 2.01
Glynwed	Aug. 9	Int. 2.45	*Transport Developmt.	Aug. 17	Int. 1.25
Great Univ. Strs.	July 20	Final 4.64	*Unigate	July 18	Final 2.105
Hambro Trust	Aug. 7	Final 1.37	*Union Discount	July 18	Int. 8.375
*Haslemere Ests.	July 16	Final 3.221	Utd. Dominions Trust	Aug. 16	Final nil
*Heron Motor	July 17	Final 1.92	Vantone	Aug. 3	Int. 1.9855
*Hogg Robinson	July 17	Final 2.58	Vosper	July 26	Int. 2.5
Hoover	Aug. 3	Int. 5.61	Ward and Goldstone	July 21	Final 3.672

* Board meetings intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made from reserves. ¶ Forecast.

BASE LENDING RATES

A.B.N. Bank	14 %	■ Hambros Bank	14 %
Allied Irish Banks Ltd.	14 %	■ Hill Samuel	§14 %
Amro Bank	14 %	C. Hoare & Co.	†14 %
American Express Bk.	14 %	Julian S. Hodge	15 %
A P Bank Ltd.	14 %	Hongkong & Shanghai	14 %
Henry Ansbacher	14 %	Industrial Bk. of Scot.	14½%
Associates Cap. Corp.	14 %	Keyser Ullman	14 %
Banco de Bilbao	14 %	Knowsley & Co. Ltd.	15½%
Bank of Credit & Cmce.	14 %	Lloyds Bank	14 %
Bank of Cyprus	14 %	London Mercantile	14 %
Bank of N.S.W.	14 %	Edward Manson & Co.	15 %
Banque Belge Ltd.	14 %	Midland Bank	14 %
Banque du Rhone et de la Tamise S.A.	14½%	■ Samuel Montagu	14 %
Barclays Bank	14 %	■ Morgan Grenfell	14 %
Bremar Holdings Ltd.	15 %	National Westminster	14 %
Brit. Bank of Mid. East	14 %	Norwich General Trust	14 %
■ Brown Shipley	14 %	P. S. Refson & Co.	14 %
Canada Perm't Trust	14 %	Rossminster	14 %
Cayzer Ltd.	14 %	Ryl. Bk. Canada (Ldn.)	14 %
Cedar Holdings	14 %	Schlesinger Limited	14 %
■ Charterhouse Japhet	14 %	E. S. Schwab	15 %
Choulartons	14 %	Security Trust Co. Ltd.	15 %
C. E. Coates	14 %	Shenley Trust	16 %
Consolidated Credits	14 %	Standard Chartered	14 %
Co-operative Bank	*14 %	Trade Dev. Bank	14 %
Corinthian Secs.	14 %	Trustee Savings Bank	14 %
Credit Lyonnais	14 %	Twentieth Century Bk.	15 %
The Cyprus Popular Bk.	14 %	United Bank of Kuwait	14 %
Duncan Lawrie	14 %	Whiteaway Laidlaw	14½%
Eagil Trust	14 %	Williams & Glyn's	14 %
English Transcont.	14 %	Yorkshire Bank	14 %
First Nat. Fin. Corp.	15½%		
First Nat. Secs. Ltd.	15½%		
■ Antony Gibbs	14 %		
Greyhound Guaranty	14 %		
Grindlays Bank	‡14 %		
■ Guinness Mahon	14 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 11½%, 1-month deposits 11¾%.
† 7-day deposits on sums of £10,000 and under 11½%, up to £25,000 12% and over £25,000 12¼%.
‡ Call deposits over £1,000 11½%.
§ Demand deposits 11½%.

RECENT ISSUES

RECENT ISSUES

EQUITIES

Issue Price p‡	Amount Paid Up	Latest Renunc. Date	1979 High	1979 Low	Stock	Closing Price p	+ or −	Div. F. or Amount	Times Covered	Gross Yield	P.E. Ratio
60	F.P.	11/7	91	76	B & Q (Retail) 5p	85	−2	8.46	2.8	5.0	17.8
80½	F.P.	27/7	89	66½	Fairline Boats	86½	−2	b3.5	3.6	6.2	6.6
‡‡	F.P.	22/6	53	50½	Fulcrum Inv. Income	50½	−½	4.0	—	11.8	—
‡‡	F.P.	22/6	4½	5	Do. Capital 2½p	5¾	−¼	—	—	—	—
[illegible]	F.P.	—	68	66	Malay'n Pl'ts Berhad	55	......	bQ8c	1.3	7.5	—
[illegible]	F.P.	10/8	37	30½	Mettoy Dfd.	30½	......	—	—	—	—
[illegible]	F.P.	—	44	35	Phicom 10p	35	......	N1.0	4.6	4.0	15.
150	F.P.	8/8	186	176	Standard Tel. & Cables	181	−1	—	—	—	—

FIXED INTEREST STOCKS

Issue Price £	Amount Paid Up	Latest Renunc. Date	1979 High	1979 Low	Stock	Closing Price £	+ or −
ǁ	Nil	20/7	1¼pm	¼pm	English & Overseas Inv. Conv.	¼pm	—
100	F.P.	27/7	112	107½	Kwik-Fit (Tyres) 8% Cnv. Ln. 1976/85	112	—
100	F.P.	20/7	102	89	Marshall's Univ'rs'l 7½% Cnv. Cum. Red. Prf.	89	—
100	F.P.	30/8	106	100	Portsmouth Water 8% Red. Prf. 1984	101½	—
¶98	£10	—	12½	12½	Sund. & S. Shields Water 8% 1986	£12½	—
¶98	£10	—	12½	12½	Wrexham Water 8% 1984	£12½	—
98	F.P.	23/8	96¼	95½	York Water 12% Deb 1986	96½	—

"RIGHTS" OFFERS

Issue Price p‡	Am'unt Paid Up	Latest Renunc. Date ●	Latest Renunc. Date ■	1979 High	1979 Low	Stock	Closing Price p	+ or −
36	F.P.	9/7	10/8	40	36½	Causton Sir (J.)	38½	+½
65	Nil	17/7	10/8	25pm	17pm	Century Oils	20pm	−2
62½	F.P.	10/7	10/8	52	66	Combined English Stores	61	−1
195	Nil	20/7	10/8	28pm	14pm	Elliott (B.)	18pm	−2
100	F.P.	15/7	3/8	158	135	Geevor Tin	125	−2
180	F.P.	29/5	10/8	146	131	Grand Metropolitan	138	−4
47	Nil	—	—	1½pm	¼pm	Hargreaves	1½pm	......
88	Nil	—	—	7pm	3pm	Highland Dist.	6pm	+2
165	F.P.	15/7	24/8	204	182½	Holt Lloyd Intl.	207	......
110	F.P.	6/7	7/9	114	109	Intl. Timber	109	−1
154	F.P.	22/6	27/7	182	167	MEPC	177	−1
105	F.P.	10/7	6/8	108	105	McCorquodale	107	......
86	F.P.	—	—	121	101½	P.M.A. Holdings	119	......
510	Nil	22/6	20/7	60pm	40pm	Peterson Tannant	40pm	......
60	F.P.	—	—	43½	39	Provincial Laundries	43	......
60	F.P.	29/6	20/7	86	81	Scottcros	86	......
265	F.P.	15/6	27/7	295	270	Simon Engineering	290	−2
60	Nil	20/7	10/8	61pm	50pm	Sound Diffusion	59pm	......
108	Nil	—	—	20pm	12pm	Stylo Shoes	20pm	......
57	Nil	20/7	24/8	7pm	5pm	UBM	4½pm	......
87	F.P.	15/7	10/8	107	94	W.G.I.	107	......

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend: cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1979. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. p‡ Pence unless otherwise indicated. ¶ Issued by tender. ǁ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ǁǁ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Unlisted security. ‡‡ Issued as units comprising 2 income shares and 10 Capital shares at 125p per unit.

INSURANCE BASE RATES

† Vanbrugh Guaranteed 11¼%
† Property Growth 11¼%
† Address shown under Insurance and Property Bond Table.

CORAL INDEX: Close 461-466

EUROBONDS

The Association of International Bond Dealers Quotations and Yields appears monthly in the Financial Times.

It will be published in an eight-page format on the following dates in the remainder of 1979.

August	13
September	10
October	15
November	12
December	10

There is a limited amount of advertising space available each month; if your company is interested in taking advantage of this offer please contact:

The Financial Advertisement Department on 01-248 8000 Ext. 424 or 7008

INSURANCE

Delay and property damage repairs

—BY OUR INSURANCE CORRESPONDENT

THOUGH it is the injury compensation claim which makes news, insurers and the courts handle many liability claims for damage to property.

Buildings are often damaged by vehicles or by natural occurrences such as the incursion of tree roots and in a claims-conscious world, the property owner or his insurers always look to see who can be found to have been legally at fault so as to get him to shoulder the repair cost.

Most property damage claims are settled quickly, but some drag on. Such a case was considered a year ago by Mr. Justice Cantley in the Queens Bench Division—but such is the delay in getting legal decisions reported that the case of *Dodd Properties (Kent) Limited v Canterbury Council and others* only emerged in May in the All England Law Reports for the information of insurers and their lawyers.

Inflation

Dodd Properties owned a building in Canterbury and in 1968, during the course of construction of a car park, the defendants caused damage to the building by pile driving. There was virtually no dispute on liability but inevitably there was argument over the extent of the repairs and compensation. The dispute dragged on for 10 years. It was to some degree complicated by the fact that the plaintiffs were short of money sufficient to get the repairs done themselves, so that at the time of the trial the damage had not been repaired.

The plaintiffs argued that as they had been kept out of the money that they were entitled to they should receive compensation at 1978 prices to have the repairs carried out. As the judge commented, the effect of delay and inflation had been startling saying the cost of doing the work he judged necessary would have been £10,800 in 1968. In 1970 when the repairs could reasonably have been started the cost had risen to more than £11,000, but by the time of the trial in 1978, the cost had reached more than £30,000.

The plaintiffs said that in injury compensation claims, the victim is entitled to have damages assessed at the time of trial, subject always to it being open to the wrongdoer to prove that the plaintiff has failed to act reasonably to mitigate his loss. Dodd Properties said that the same kind of rule should operate for property damage claims.

But set against them many legal decisions, admittedly from less inflationary times, which established that where property is damaged by tortuous act or omission, the measure of compensation is to be assessed at the time of the occurrence of such damage. Relaxation of this rule is only to be made where damage is not discovered until later or where circumstances are such that it takes time for the repairs to be started.

The plaintiff's straitened financial circumstances, said the judge, were not a factor mitigating the general principle: indeed he adverted to the 45-year-old decision of the Lords on this aspect in the case of *Liesboch v Edison* saying "the appropriate damages are the cost of repairs at the time when it was reasonable to begin repair: whether the time is reasonable must be judged objectively without taking into account such matters as impecuniosity or financial stringency, which in the words of Lord Wright in Liesboch case, are extrinsic."

There has always been much to be said against the Liesboch principle and in modern economic circumstances many, like Dodd Properties, might say that the time for reconsideration is long overdue. In the personal injury field the wrongdoer takes his victim as he finds him so that if the victim has an eggshell skull and is that much more seriously injured than the next man the wrongdoer has to pay accordingly. In property damage claims it is arguable that the victim's impecuniosity is analogous to the eggshell skull — but the law as it stands is clearly against this view.

Actuaries successes

IN THE Institute of Actuaries examinations held in overseas centres, 21 candidates completed all the examinations. Of these 12 were in Australia, three in New Zealand, two in both Canada and South Africa and one in both Hong Kong and India.

Also 23 candidates completed the intermediate Group A examinations and 27 became eligible for the Certificate in Finance and Investment.

APPOINTMENTS

Save and Prosper

Mr. W. L. Banks, a director of Robert Fleming Holdings who was seconded to Save and Prosper Group in 1973, will return to full time executive duties with Robert Fleming on September 1, and will be resigning from the Board of Save and Prosper. Mr. P. J. Manser will be appointed an executive director of Save and Prosper on September 1, and will be responsible for investment management. For the last four years Mr. Manser has been managing director of Jardine Fleming and Company in Hong Kong. Mr. Manser will remain a non-executive director of Robert Fleming.

A new Save and Prosper subsidiary, Save and Prosper Investment Management, will be formed on September 1 to administer Save and Prosper's investments. In addition to Mr. Manser, the directors will be initially Mr. J. G. Archibald, Mr. I. R. Payne, Mr. C. R. Tracey and Mr. A. W. V. Laurie, all of whom have been associated with Save and Prosper's investment management for several years.

★

Sir John Stewart-Clark and Mr. K. A. V. Mackrell have been appointed additional non-executive directors of COPE ALLMAN INTERNATIONAL. Until his recent election as a member of the European Parliament representing East Sussex, Sir John was managing director of Pye of Cambridge. Mr. Mackrell is trade relations co-ordinator at Shell International.

★

Mr. J. P. Parkinson has been appointed a director of BAKER PERKINS LTD.

★

The FINANCIAL TIMES has appointed Mr. Richard Oliver as European advertisement manager for World Business Weekly. He has been with the Financial Times since 1976.

This week in Parliament

TODAY

COMMONS—Debate on the 1980 Preliminary Draft Community Budget. Education Bill, third reading. Remaining stages of the European Assembly (Salaries and Pensions) Bill.

LORDS—Motion on Peers expenses. Limitation Amendment Bill, committee stage. Companies Bill, report stage. Dealings with Witnesses Bill, second reading. Motions to approve Intelsat (Immunities and Privileges) Order 1979. Oslo and Paris Commissioners (Immunities and Privileges Order) 1979. Capital Transfer Tax (Northern Ireland Consequential Amendment) Order 1979, and Inheritance (Provision for Family and Dependants) (Northern Ireland) Order 1979. Debate on H.M. Police Inspectors.

TOMORROW

COMMONS—Debate on Opposition motion on reducing public services for those who need them most. The House will be asked to agree all outstanding Estimates and Supplementary Estimates. Motions on Northern Ireland Order on Pneumoconiosis etc (Workers' Compensation), on Inheritance (Provisions for Family Dependants), on Capital Transfer Tax (Consequential Amendment) and on Tatooing of Minors. At 7 pm opposed Private Bills.

LORDS—Law Reform (Misc. Provisions) (Scotland) Bill. Education Bill, second reading. Motions to approve Carriage by Air Acts (Application of Provisions) (Second Amendment) Order 1979. Air Navigation (Noise Certification) Order 1979, Lloyds (General Business) Regulations 1979. Hypnotism Bill, second reading. Debate on Dioxin.

WEDNESDAY

COMMONS—Finance Bill, remaining stages. Motion on the Housing (Limitation and Rent Income Increases) (Scotland) Revocation Order.

LORDS—Debate on the closure of "The Times." Debate on the third report of the Law Commission on Family Property. Debate on baggage handling arrangements at Heathrow Airport.

THURSDAY

COMMONS—Debate on reintroduction of the death penalty. Motions on the Social Security (Unemployment, Sickness and Invalidity Benefit) Amendment Regulations and on the Child Benefit and Social Security (Fixing and Adjustment of Rates) Amendment Regulations.

LORD—Charging Orders Bill committee. Education Bill, committee. Motions to approve Ministerial and other Salaries Order, Shipbuilding (Redundancy Payments Scheme (Great Britain) (Amendment) Order 1979, Shipbuilding (Redundancy Payments Scheme) (N.I.) (Amendment) Order 1979, Firearms (Amendment) (N.I.) Order, 1979. Tatooing of Minors (N.I.) Order 1979, European Communities (Definition of Treaties) (ECSC Decision) Order 1979. Debate on the safety of Her Majesty the Queen during her visit to Zambia.

WORLD STOCK MARKETS

Indices

NEW YORK —DOW JONES

	July 13	July 12	July 11	July 10	July 9	July 6	1979 High	1979 Low	Since Compil'n High	Since Compil'n Low
● Industr'ls	835.53	838.36	843.88	850.34	852.99	846.16	878.72 (18/4)	807.00 (27/2)	1051.70 (11/1/73)	41.22 (2/7/32)
H'me B'nds	85.78	85.85	85.79	85.85	85.86	85.92	85.97 (5/7)	82.82 (8/5)	—	—
Transport	248.06	246.54	248.34	250.34	251.58	248.64	251.52 (13/7)	205.78 (27/2)	279.88 (7/2/69)	12.23 (8/7/32)
Utilities	107.55	107.57	108.09	108.28	107.75	106.78	108.29 (10/7)	98.51 (15/5)	165.32 (20/4/69)	10.50 (28/4/42)
Trading vol 000's	33,160	31,300	38,700	39,850	42,580	38,850	—	—	—	—

● Day's high 837.88 low 827.47

	July 3	June 29	June 22	Year ago (approx)
Ind. div. yield %	5.69	5.72	5.97	5.75

STANDARD AND POORS

	July 13	July 12	July 11	July 10	July 9	July 5	1979 High	1979 Low	Since Cmpil'n High	Since Cmpil'n Low
Indust'ls	113.75	113.55	114.66	115.49	115.98	114.77	116.89 (9/1)	107.06 (27/2)	134.64 (11/1/73)	3.52 (30/6/32)
Composite	102.52	102.69	103.64	104.29	104.47	103.52	104.47 (9/7)	96.13 (27/2)	125.85 (11/1/73)	4.40 (1/6/32)

	July 11	July 3	June 27	Year ago (approx)
Ind. div. yield %	[illegible]	[illegible]	[illegible]	[illegible]
Ind. P/E Ratio	[illegible]	[illegible]	[illegible]	[illegible]
Lor. Gov. Bond Yield	[illegible]	[illegible]	[illegible]	[illegible]

N.Y.S.E. ALL COMMON

MONTREAL

TORONTO Composite

JOHANNESBURG

FRIDAY'S ACTIVE STOCKS

EUROPE

AMSTERDAM

BRUSSELS/LUXEMBOURG

COPENHAGEN

VIENNA

GERMANY

STOCKHOLM

SPAIN

SWITZERLAND

MILAN

OSLO

PARIS

TOKYO

BRAZIL

HONG KONG

AUSTRALIA

JOHANNESBURG

WALL STREET

NEW YORK

CANADA

INTERNATIONAL BONDS

BY FRANCIS GHILES

The dollar waits for Carter

THE SHARP rise in European interest rates last week, notably in Germany, convinced many investors and dealers in the Eurobond market that the American authorities would have to act sooner rather than later to push up U.S. interest rates.

The wait-and-see attitude which investors have by and large adopted during the past few weeks as they assessed evidence of how the U.S. dollar and interest rates would move was reinforced by delay in the expected energy speech President Carter was planning to make early today. Activity was thus at a very low ebb in the dollar sector of the Eurobond market.

The action was in Germany. Following the Bundesbank's decision on Thursday to increase its discount and Lombard rates with effect from last Friday, a strong surge of buying of Deutsche Mark denominated paper was reported by German banks.

So eager were non-German investors to buy domestic D-Mark paper that prices moved up by ½ point across the board and the Bundesbank had to supply DM 200m worth of paper to satisfy the market's appetite.

Foreign D-Mark bonds were less actively traded with prices moving up by an average of ¼-½ a point on the day. German bankers said they believed a renewed surge in foreign buying of Deutsche Mark foreign bonds would occur this week if the measures announced by President Carter failed to steady the dollar.

Although D-Mark foreign bonds ended the week on a strong note, many issues still showed minor losses over the week. The only new issue arranged in this sector was a DM20m private placement for the South African Electricity Power Commission, ESCOM.

Five new issues were announced in the dollar sector last week, including the first ever dollar denominated bond for Statoil of Norway, the third dollar convertible for Union Bank of Switzerland and e $25m convertible for Allegheny Airlines NV.

However, the major talking point of the market was the successful introduction by the European Investment Bank of competitive bidding into the straight Eurobond market.

The EIB said last Friday that it would usa the tender system again. It had not yet conducted a full post mortem of the issue it had just completed and was thus not in a position to say whether it wished to see any change in the bidding methods introduced.

The winning bid for the $100m issue, which hears an annual coupon of 9.70 per cent, was 98.06 to yield 10.016 to maturity. The winning hidders were Citicorp International with $50m, and Algemene Bank Nederland and Samuel Montagu with $25m each. Most of the unsuccessful hids were pitched at the 97.50/75 level with a syndicate led by Orion Bank coming close to winnin with a bid of 98.013.

Bonds were being resold last Friday at around 98.35 yielding 9.97 per cent which suggested the winning banks were marking np the price of the bond by between ¼ and ½ point before passing them on to a final investor. This is therefore the commission which the EIB was charged for floating the issue.

Banks which had not bid or been unsuccessful guessed that the EIB had succeeded in raising funds more cheaply than if it hed stuck to tradition and given e mandate to a bank to organise tha bond issue: the exact amount saved by the EIB is impossible to assess however.

In its weekly telex, Hill Samuel commented that the attempt of the EIB to introduce competitive bidding to the Eurobond market "appears to have been a qualified success, assuming that the successful banks have genuina client demand for the bonds that they have taken down." This echoed widespread scepticism as to bow much investor demand the three successful banks could count upon.

The EIB remains one of the most regular borrowers in the Eurobond markets. Because its paper is so widely held in investment portfolios, a yield gap between EIB and other triple A credits has slowly emerged. The financial director of the EIB, M. Andre George has argued strongly that this ia uninstified: he now seems to have succeeded in making his point.

What he has done he says he will do again and he could well be followed by others. If such competitive bidding becomes widespread in the Eurobond market, the formal structure of commissions normally paid by the borrowers to the issuing houses will be seriously undermined.

However, M. George may not have achieved another of his atated aims which was to ensure that the small investor gets a better deal in the Eurobond market. It is not at ell clear that much if any of this issue ended up in the hands of private rather than institutional investors.

INTEREST RATES

BY DAVID MARSH

Hard currency challenge to the U.S.

FOR THE first time since 1973 the international foreign exchange and capital markets are confronted with a generally weak dollar and rising interest rates in the hard currency centres of West Germany, Japan and Switzerland.

Last week's rise in the Bundesbank's discount rate to 5 per cent, the highest level for over four years, has prepared the ground for a further round of European interest rate leapfrogging in the next few weeks. Already this year's German monetary tightening up has propelled bank rates in Belgium, Denmark and Holland, whose currencies are close to their D-Mark floors in the European Monetary System, to crisis levels, while interest rates have been rising in France and Italy too.

EMS members are learning the consequences of living in a DM zone: monetary interest policies decided in Frankfurt inevitably call the tune for the satellite capitals as well.

The Bundesbank's anti-inflation moves also look like having clear repercussions outside Europe. There is a definite danger—outlined elegantly by the Bank for International Settlements in its annual report last month—that the reaction in these three countries, Germany, Japan and Switzerland, to the worldwide upsurge in inflation now being aggravated by the latest OPEC price rises will be considerably tougher and more effective than in the U.S.

Over-tightening of monetary policy outside the U.S. could lead to a renewed run on the dollar, which even greatly increased central bank intervention would do little to stop—especially as the Bundesbank in particular has given a clear sign in recent months that a weak dollar is not wholly unwelcome in the interests of fighting domestic inflation.

That is why central bankers have been at pains to play down the external effects of their interest rate manoeuvrings. Dr. Otmar Emminger, the Bundesbank president last week stressed that discount rate increase was "moderate" and had largely been discounted in advance by markets.

Much the same will probably be said in a few weeks time by Mr. Teiichiro Morinaga, the Bank of Japan governor, who last week after a rare appearance at the monthly BIS meeting in Basle visited Frankfurt and Zurich to discuss interest rate strategy.

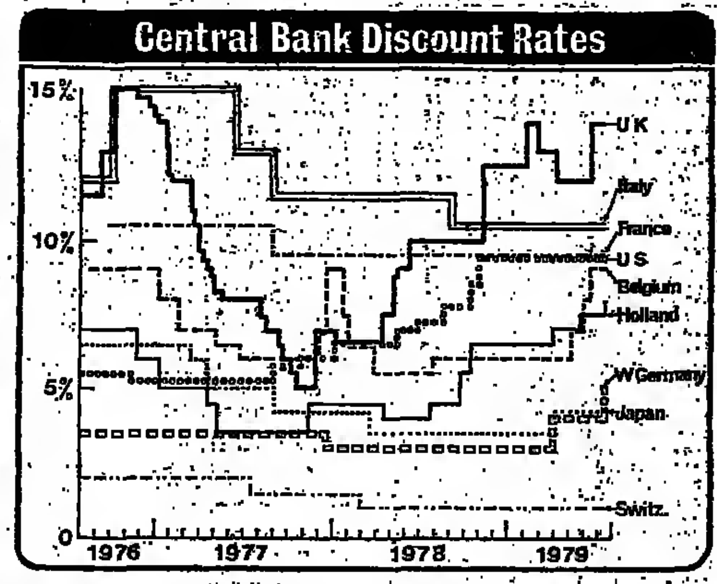
Japanese officials are particularly worried at the rise in their wholesale prices, running at an annual rate of 18.6 per cent over the last three months. An increase of perhaps 0.75 per cent in the Bank of Japan's 4.25 per cent discount rate is widely forecast, perhaps before the end of the month.

Higher interest rates are also on the way in Switzerland, at least on the capital market, even if the 1 per cent discount rate stays at its artificially low level for the time being. Switzerland's inflation rate, measured by the annual rise in the consumer price index, went up to a practically unheard of 4.1 per cent in June, causing concern at the National Bank.

As a result, Switzerland—although probably only temporarily—has lost its mantle of the most price-stable country in the industrialised world to neighbouring Austria, whose latest inflation figures—for May—show a consumer price rise of only 3.1 per cent. The June figures for Germany and Japan were 3.9 and (provisionally) 3.7 per cent respectively.

European central bankers at the Basle session last week were making clear that the burst of anti-inflation activity on this side of the Atlantic is putting the onus on the U.S. to continue or perhaps even tighten its monetary policy, despite the prospect of recession. Whether these hopes will be fulfilled will perhaps be slightly clearer this morning as the markets assess the message in President Carter's energy speech.

Central Bank Discount Rates



CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
††§Canon Inc.	80	1994	—	*	*	Goldman Sachs	*
‡†City Investing Fin.	50	1986	6.1	8⅜‖	100	Paribas	—
†Genossenschaftliche Bk.	40	1989	10	5¼◆	100	Crédit Suisse First Boston	5.58◆
††ECSC	125	1999	15	*	*	Lehman Bros. Kuhn Loeb	*
Argentina	50	1984	5	9¾	99	Crédit Suisse First Boston	10.14
‡†Kay Capital	20	1985	6	8¼◆	100	Kidder Peabody	8.69◆
‡EIB	100	1989	8½	9.7	98.06	ABN, Citicorp, S. Montagu	10.016
§UBS (Panama)	*	1989	—	5	100	UBS (Securities)	5.0
Statoil (g'teed Norway)	100	1989	8	9⅝	100	Deutsche Bank	9.625
§Allegheny Airlines	25	1994	—	9	100	Kuhn Loeb Lehman Bros.	9.0
D-MARKS							
‡Brazil	150	1987	8	8	100¼	Deutsche Bank	7.96
**Parker-Hannifin	30	1987	7	7¼	99	Deutsche Bank	7.47
‡**ESCOM (g'teed S. Africa)	20	1984	5	8¾	100	Commerzbank	8.75
SWISS FRANCS							
Manufrance (g'teed St. Etienne)	16	1991	n.a.	5½	100	Banque Gutzwiller, Kurz, Bungener	5.5
BNDE	75	1989	n.a.	5	99	Crédit Suisse	5.33
EDF	100	1989	n.a.	4⅜	100	UBS	4.375
‡¶*Austria	100	1986	n.a.	4⅜	100¼	Kredietbank (Suisse)	4.34
‡¶*Autopistas de Navarra	40	1985	n.a.	5¼	100	UBS	5.25
‡**§Tobishima	30	1984	—	4½	100	UBS	4.5
‡**§Ricoh	50	1984	—	4⅜	100	UBS	4.375
‡**Ricoh	20	1984	n.a.	4½	100	UBS	4.5
‡**Nippon Housing Loan Co.	20	1984	n.a.	4⅝	100	Swiss Bank Corp.	4.625
‡**§Nippon Beet Sugar Man.	25	1984	—	4¾	100	Paribas (Suisse)	4.75
‡**§Fujiya Conf.	20	1984	—	4¾	100	Swiss Bank Corp.	4.75
STERLING							
‡**EIB	15	1991	10	12	100	S. G. Warburg	12.0
ASIAN DOLLARS							
‡†Sontrach	25	1987	8	7½◆	100	Crédit Lyonnais, Nomura Mercant Bkg. Ltd.	7.50◆
YEN							
‡Thailand	10bn	1989	9	8.8	99.40	Nomura	8.89

* Not yet priced. ‡ Final terms. ** Placement. † Floating rate note. ◆ Minimum. § Convertible. †† Registered with U.S. Securities and Exchange Commission. ¶ Purchase fund. ‖ Optional fixed rate.
Note: Yields are calculated on AIBD basis.

U.S. BONDS

BY DAVID LASCELLES

Waiting for guidance

DESPITE ALL the competing factors of international interest rate rises, another Fed open market committee meeting and further rises in the money supply, the U.S. credit markets spent most of last week focusing on only one thing: President Carter's forthcoming energy message.

As a result, trading was thin and prices changed little, although the general drift was downwards because of fears that Mr. Carter would fail to get to grips with the country's economic problems.

The week opened with opinions divided over what was likely to happen at the FOMC. With indications mounting every day that the economy has entered a recession, it seems unlikely that the Fed would tighten credit still further. Yet inflation and the money supply persist in their unrelenting upward course. Expectations of a tightening increased on Thursday when Germany led several other countries into higher interest rates.

But by the end of the week Fed funds were still trading at around 10⅛ per cent, unchanged from the level of the past few weeks. However, the market has not ruled out a rise in the discount rate this week (possibly as part of some energy package) to bolster the dollar. The rate is currently 9½ per cent.

Last week's money supply figures (M1 up $1.3bn, M2 up $3.2bn) were in line with market expectations, and a further rise is likely this week.

The market is looking to Mr. Carter to come up with firm proposals to curb energy consumption and reduce inflation. However, the market in general views Mr. Carter as helpless. He has ruled out the abolition of petrol price controls, which would have been an effective way of curbing demand. And he continues to eschew mandatory controls against inflation. In fact, the closer the 1980 election year comes, the more likely he is to allow the budget deficit to expand to keep the economy going.

Thus, the market is in a bearish mood, expecting inflation to persist well into next year, with higher interest rates a distinct possibility. When the White House came out last week with its latest economic report forecasting declining economic growth and inflation of over 10 per cent this year, there was no market reaction; it had all been discounted.

The economic data due out this week include:—Today: June industrial production; Wednesday: housing starts in June; Thursday: personal income; and Friday: GNP in the second quarter.

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS — YEN STRAIGHTS — OTHER STRAIGHTS — FLOATING RATE NOTES — DEUTSCHE MARK STRAIGHTS — SWISS FRANC STRAIGHTS — CONVERTIBLE BONDS

[illegible]

BONDTRADE INDEX AND YIELD

	Medium term		Long term	
July 13 ...	95.39	8.68	89.40	9.45
July 6 ...	95.38	8.66	89.43	9.42
High '79...	95.75	(1/2)	89.89	(30/1)
Low '79...	94.40	(11/1)	88.67	(28/2)

EUROBOND TURNOVER (nominal value in $m)

	Cedel	Euroclear
U.S. $ bonds		
Last week	1,362.8	2,772.2
Previous week ...	1,122.9	1,762.0
Other bonds		
Last week	346.8	420.1
Previous week ...	323.8	266.3

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. M=Minimum coupon. C.dte=Dete next conpon becomes effective. Spread=Margin above six-month offered rate (‡ three-month) for U.S. dollars. C.cpn=The current coupon. C.yld=The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Kredietbank NV; Credit Commercial de France; Credit Lyonnais; E. F. Hutton Services SARL; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Internationale Luxembourg; Krediet Bank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Bondtrade; Banque Francaise de Credit International; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; Dillon Read Overseas Corporation; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Morgan Stanley International; Nesbitt Thomson; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Strauss Turnbull and Co.; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on July 13

AUTHORISED UNIT TRUSTS

Abbey Unit Tst. Mngrs. (a)

Allen Harvey & Ross Unit Tst. Mngrs.

Allied Hambro Group (a)(g)

Anderson Unit Trust Managers Ltd.

Ansbacher Unit Mngmt. Co. Ltd.

Arbuthnot Securities Ltd. (a)(c)

Archway Unit Tst. Mgs. Ltd.

Barclays Unicorn Ltd.

Baring Brothers & Co. Ltd.

Bishopsgate Progressive Mgmt. Co.

Bridge Fund Managers (a)(c)

Britannia Trust Management (a)(g)

The British Life Office Ltd.

Brown Shipley & Co. Ltd.

Canada Life Unit Tst. Mngrs. Ltd.

Capel (James) Mngt. Ltd.

Carliol Unit Fd. Mgrs. Ltd.

Charities Official Invest. Fund

Chieftain Trust Managers Ltd.

Confederation Mgt. Ltd.

Cosmopolitan Fund Managers

Craigmount Unit Tst. Mgrs. Ltd.

Crescent Unit Tst. Mngrs. Ltd.

Discretionary Unit Fund Managers

E. F. Winchester Fund Mngt. Ltd.

Emson & Dudley Tst. Mngmt. Ltd.

Equity & Law Un. Tr. M.

James Finlay Unit Trust Mngt. Ltd.

Framlington Unit Mgt. Ltd.

Friends' Provdt. Unit Tr. Mgrs.

Funds in Court

G.T. Unit Managers Ltd.

G. & A. Trust (a)(g)

Gartmore Fund Managers

Gibbs (Antony) Unit Tst. Mgs. Ltd.

Govett (John)

Grieveson Management Co. Ltd.

Guardian Royal Ex. Unit Mgrs. Ltd.

Henderson Administration

Hill Samuel Unit Tst. Mgrs.

Investment Intelligence Ltd.

Key Fund Managers Ltd.

Kleinwort Benson Unit Managers

L & C Unit Trust Management Ltd.

Legal & General Tyndall Fund

Leonine Administration Ltd.

Lloyds Bk. Unit Tst. Mngrs. Ltd.

Lloyd's Life Unit Tst. Mngrs. Ltd.

Local Authorities' Mutual Invest. Tst.

M & G Group

ManuLife Management Ltd.

Mayflower Management Co. Ltd.

Mercury Fund Managers Ltd.

Midland Bank Group Unit Trust Managers Ltd.

Minster Fund Managers Ltd.

MLA Unit Trust Mngmnt. Ltd.

Murray Johnstone U.T. Mgmt.

Mutual Unit Trust Managers

National and Commercial

National Provident Inv. Mngrs. Ltd.

National Westminster

NEL Trust Managers Ltd.

Norwich Union Insurance Group (b)

Pearl Trust Managers Ltd.

Pelican Units Admin. Ltd.

Perpetual Unit Trust Mngmt.

Practical Invest. Co. Ltd.

Provincial Life Inv. Co. Ltd.

Prudl. Portfolio Mngrs. Ltd.

Quilter Management Co. Ltd.

Reliance Unit Mgrs. Ltd.

Ridgefield Management Ltd.

Rothschild Asset Management (g)

Rowan Unit Trust Mngt. Ltd.

Royal Tst. Can. Fd. Mgrs. Ltd.

Save & Prosper Group

Schlesinger Trust Mngrs. Ltd.

J. Henry Schroder Wagg & Co. Ltd.

Scottish Equitable Fnd. Mgrs. Ltd.

Sebag Unit Tst. Managers Ltd.

Security Selection Ltd.

Stewart Unit Tst. Managers Ltd.

Sun Alliance Fund Mngt. Ltd.

Target Tst. Mngrs. Ltd.

Target Tst. Mngrs. (Scotland)

Tower Unit Trust Mngt. Ltd.

Trades Union Unit Tst. Managers

Transatlantic and Gen. Secs.

Tyndall Managers Ltd.

TSB Unit Trusts (y)

Ulster Bank

Unit Trust Account & Mgmt. Ltd.

Wieler Growth Fund

INSURANCE AND PROPERTY BONDS

Abbey Life Assurance Co. Ltd.

AMEV Life Assurance Ltd.

Albany Life Assurance Co. Ltd.

Barclays Life Assur. Co. Ltd.

Beehive Life Assur. Co. Ltd.

Canada Life Assurance Co.

Cannon Assurance Ltd.

Capital Life Assurance

Charterhouse Magna Gp.

Chieftain Assurance Funds

City of Westminster Assur. Co. Ltd.

City of Westminster Assur. Soc. Ltd.

Commercial Union Group

Confederation Life Insurance Co.

Cornhill Insurance Co. Ltd.

Credit & Commerce Insurance

Crown Life Assurance

Crusader Insurance Co. Ltd.

Eagle Star Insur./Midland Assur.

Equity & Law Life Ass. Soc. Ltd.

Gartmore Bonds

General Portfolio Life Ins. C. Ltd.

Gresham Life Ass. Soc. Ltd.

Growth & Sec. Life Ass. Soc. Ltd.

Guardian Royal Exchange

Hambro Life Assurance Limited

Hearts of Oak Benefit Society

Hill Samuel Life Assur. Ltd.

Imperial Life Ass. Co. of Canada

Irish Life Assurance Co. Ltd.

King & Shaxson Ltd.

Langham Life Assurance Co. Ltd.

Legal & General (Unit Assur.) Ltd.

Legal & General Prop. Fd. Mgrs. Ltd.

Life Assur. Co. of Pennsylvania

Lloyds Life Assurance

London Indemnity & Gnl. Ins. Co. Ltd.

London Life Linked Assur. Ltd.

The London & Manchester Ass. Gp.

M & G Group

Merchant Investors Assurance

NEL Pensions Ltd.

NPI Pensions Management Ltd.

New Zealand Ins. Co. (UK) Ltd.

Norwich Union Insurance Group

Pearl Assurance (Unit Funds) Ltd.

Phoenix Assurance Co. Ltd.

Prop. Equity & Life Ass. Co.

Property Growth Assur. Co. Ltd.

Provincial Life Assurance Co. Ltd.

Prudential Pensions Limited

Reliance Mutual

Rothschild Asset Management

Royal Insurance Group

Save & Prosper Group

Schroder Life Group

Scottish Widows' Group

Solar Life Assurance Limited

Sun Alliance Fund Mangmt. Ltd.

Sun Alliance Linked Life Ins. Ltd.

Sun Life of Canada (UK) Ltd.

Target Life Assurance Co. Ltd.

Transinternational Life Ins. Co. Ltd.

Trident Life Assurance Co. Ltd.

Tyndall Assurance/Pensions

Vanbrugh Life Assurance

Vanbrugh Pensions Limited

Welfare Insurance Co. Ltd.

Windsor Life Assur. Co. Ltd.

OFFSHORE AND OVERSEAS FUNDS

Alexander Fund

Allen Harvey & Ross Inv. Mgt. (C.I.)

Arbuthnot Securities (C.I.) Limited

Australian Selection Fund NV

Bank of America International S.A.

Banque Bruxelles Lambert

Barbican Managers (Jersey) Ltd.

Barclays Unicorn International

Bishopsgate Commodity Ser. Ltd.

Bridge Management Ltd.

Britannia Tst. Mngmt. (C.I.) Ltd.

Brown Shipley Tst. Co. (Jersey) Ltd.

Butterfield Management Co. Ltd.

Capital International S.A.

Charterhouse Japhet

Clive Investments (Jersey) Ltd.

Cornhill Ins. (Guernsey) Ltd.

DWS Deutsche Ges. f. Wertpapiersp

Delta Group

Deutscher Investment-Trust

Dreyfus Intercontinental Inv. Fd.

Emson & Dudley Tst. Mgt. Jrsy. Ltd.

The English Association

Eurobond Holdings N.V.

F. & C. Mgmt. Ltd. Inv. Advisers

Fidelity Mgmt. & Res. (Bda) Ltd.

Fidelity Mgmt. Research (Jersey) Ltd.

First Viking Commodity Trusts

Fleming Japan Fund S.A.

Free World Fund Ltd.

G.T. Management Ltd.

Gartmore Invest. Ltd.

Hambro Pacific Fund Mgmt. Ltd.

Hambros (Guernsey) Ltd.

Henderson Baring Group

Hill-Samuel & Co. (Guernsey) Ltd.

Hill Samuel Invest. Mgmt. Intnl.

International Pacific Inv. Mngt. Ltd.

J.E.T. Managers (Jersey) Ltd.

Jardine Fleming & Co. Ltd.

Keyser Ullman Ltd.

King & Shaxson Mgrs.

Kleinwort Benson Limited

Lloyds Bk. (C.I.) U/T Mgrs.

Lloyds Bank International Geneva

M & G Group

Midland Bank Tst. Corp. (Jersey) Ltd.

Samuel Montagu Ldn. Agents

Murray, Johnstone (Inv. Adviser)

Nat. Westminster Jersey Fd. Mgrs. Ltd.

Negit S.A.

Pacific Basin Fund

Phoenix International

Providence Capitol Life Ass. (C.I.)

Quest Fund Mngmnt. (Jersey) Ltd.

Richmond Life Ass. Ltd.

Rothschild Asset Management (C.I.)

Rothschild Asset Mgt. (Bermuda)

Royal Trust (C.I.) Fd. Mgt. Ltd.

Save & Prosper International

Schlesinger International Mngt. Ltd.

Schroder Life Group

J. Henry Schroder Wagg & Co. Ltd.

Sentry Assurance International Ltd.

Singer & Friedlander Ldn. Agents

Standard Chartered Intl. Bd. Fd.

Stronghold Management Limited

Surinvest (Jersey) Ltd.

TSB Unit Trust Managers (C.I.) Ltd.

TSB Gilt Fund Managers (C.I.) Ltd.

Tokyo Pacific Holdings N.V.

Tokyo Pacific Hldgs. (Seaboard) N.V.

Tyndall Group

Utd. Intnl. Mngmnt. (C.I.) Ltd.

United States Tst. Intl. Adv. Co.

S. G. Warburg & Co. Ltd.

Warburg Invest. Mngt. Jrsy. Ltd.

World Wide Growth Management

Wren Commodity Trust

NOTES

A copy of this Offer for Sale, having attached thereto the documents specified herein, has been delivered to the Registrar of Companies for registration. Application has been made to the Council of The Stock Exchange for the Ordinary Share capital of Mercantile House Holdings Limited ("the Company") issued and now being issued to be admitted to the Official List. This Offer for Sale includes particulars given in compliance with the Regulations of the Council of The Stock Exchange for the purpose of giving information with regard to the Company. The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement herein whether of fact or of opinion. All the Directors accept responsibility accordingly.

The Application List for the Ordinary Shares now offered for sale will open at 10 a.m. on Thursday, 19th July, 1979 and may be closed at any time thereafter. The procedure for application is set out below.

Mercantile House Holdings Limited

Offer for Sale by S. G. Warburg & Co. Ltd.

of 2,000,000 Ordinary Shares of 25p each at 160p per share payable in full on application

The Ordinary Shares now offered for sale rank in full for all dividends declared or paid on the Ordinary Share capital of the Company after the date hereof.

Directors

Robert Renny St. John Barkshire, T.D., A.I.B. (Chairman)
Highlands, Chiddingly, near Lewes, Sussex

Michael John Lumley Kelly
Littleacre, Jersey Road, Osterley, Isleworth, Middlesex

Keith Hughesdon
Boyles Farmhouse, Harwoods Lane, East Grinstead, Sussex

Derrick George Scotchbrook
Deepdene, Canterbury Road, Herne Bay, Kent

Peter Graham Bainbridge
Albany Lodge, 6A Blackheath Park, Blackheath, London SE3

The Earl of Carrick
10 Netherton Grove, London SW10

George Wardrop Fyfe, C.A.
Gable Cottage, Coombe Hill Road, Kingston upon Thames, Surrey

Michael Anthony Knowles
33 Colbert Avenue, Thorpe Bay, Essex

Michael John Pyle
3 The Dell, Woodford Green, Essex

Michael James Warren
Brook Cottage, London Road, Copford, Colchester, Essex

Share Capital

in Ordinary Shares of 25p each

Authorised	Issued and now being issued fully paid
£1,750,000	£1,375,000

Indebtedness

Save as disclosed herein and apart from intra-group liabilities, neither the Company nor any of its subsidiaries had outstanding at the close of business on 18th June, 1979 any loan capital, mortgages, charges or other borrowing or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, material guarantees or other material contingent liabilities.

Secretary and Registered Office
Andrew John Conyers Sommerville, F.C.A.
Mercantile House, 66 Cannon Street, London EC4N 6AE

Auditors and Reporting Accountants
Price Waterhouse & Co., Chartered Accountants,
Southwark Towers, 32 London Bridge Street, London SE1 9SY

Solicitors to the Company
Clifford-Turner
Blackfriars House, 19 New Bridge Street, London EC4V 6BY

Solicitors to S. G. Warburg & Co. Ltd.
Slaughter and May
35 Basinghall Street, London EC2V 5DB

Stockbrokers
Cazenove & Co.
12 Tokenhouse Yard, London EC2R 7AN, and The Stock Exchange

Bankers
Bank of England, Threadneedle Street, London EC2R 8AH
Williams & Glyn's Bank Limited, 67 Lombard Street, London EC3P 3DL

Receiving Bankers to the Offer for Sale
Williams & Glyn's Bank Limited
67 Lombard Street, London EC3P 3DL

Registrars and Transfer Office
Williams & Glyn's Registrars Limited
31 St. Andrew Square, Edinburgh EH2 2AB

Chairman's Letter

The following is a copy of a letter to S. G. Warburg & Co. Ltd. from Mr. R. R. St. J. Barkshire, Chairman of Mercantile House Holdings Limited.

The Directors,
S. G. Warburg & Co. Ltd.

11th July, 1979.

Dear Sirs,

In connection with your Offer for Sale of Ordinary Shares of Mercantile House Holdings Limited ("the Company" and, with its subsidiaries, "the Group") I have pleasure in giving you the following information.

The Company is a holding company with two direct subsidiaries, M. W. Marshall & Company Limited ("Marshalls") and Saturn Holdings Limited ("Saturn"). Marshalls carries on the Group's principal business of international money broking through its London office and overseas subsidiaries. In Saturn the Group has developed a range of other financial services.

History

The exchange broking business of Marshall and Son was founded in London in 1868. In 1923 the partnership changed its name to M. W. Marshall and Company and continued to trade as foreign exchange and coupon brokers until 1939. The London foreign exchange market was closed during the Second World War and when it re-opened in 1952 Marshalls was incorporated by descendants of the founding family to continue the business previously carried on by the partnership. The business in its present form has evolved since 1967 when Cater Ryder & Company Limited ("Cater Ryder"), of which I was a joint Managing Director, purchased Marshalls and then formed Cater (Brokers) Limited to provide a complementary broking service in the sterling deposit markets. These two companies, which were managed respectively by Mr. M. J. L. Kelly and Mr. K. Hughesdon, have provided the base on which the current business has been built and most of the people involved in the early days of development are still with the Group.

In 1972 the Company, then named M. W. Marshall Investments Limited, was formed in order to purchase Cater Ryder's broking interests in both the foreign exchange and sterling markets; initially 90 per cent. of these interests was acquired and the balance in 1975.

Since 1972 we have sought to develop the activities of the Group in several ways. We have continued the policy of expanding the international coverage of our money broking business by increasing the number of offices around the world to the current total of 13. We took a major step towards strengthening our presence in the increasingly important financial markets in the United States through the acquisition in 1977 of Lasser Bros., Inc., a leading foreign exchange broker based in New York. We have developed our non-money broking activities through Saturn and these now include lease consultancy and fund management. Earlier this year the Company changed its name from M. W. Marshall Investments Limited to Mercantile House Holdings Limited in order to reflect our policy of broadening the range of financial services provided by the Group.

Prior to this Offer for Sale there were approximately 200 shareholders of the Company, including 141 employees, and some 60 per cent. of the issued capital was held by investment institutions.

Business

The Group's activities, and their contributions to turnover (as defined in the Accountants' Report) in the year ended 30th April, 1979, are as follows:—

	£'000
Money broking	15,472
United States securities trading	362
Financial services	454
	16,288

(a) Money broking

The international money market consists of a number of individual markets in many different financial centres trading in foreign exchange and, depending on the particular financial centre, in sterling and other currency deposits (including United States Federal Funds) and money market paper such as certificates of deposit. The markets facilitate domestic and international trading, provide a medium through which financial transactions are settled and enable currencies to establish their relative levels. The participants in the markets are mainly banks, but also include governments, government agencies, local government authorities, other financial institutions and commercial and industrial companies. Marshalls' offices work closely in conjunction with the local monetary and banking authorities who supervise the markets and in several cases Marshalls has played a significant role in the development of new markets.

Marshalls and its subsidiaries are brokers, putting together buyer and seller or borrower and lender for a commission. They do not act as principals in any of these markets, except as investors of their own surplus funds. Commissions are normally charged to both principals; in most centres and markets the rates of commission are agreed from time to time by the participants in the markets. In the London foreign exchange and currency deposit markets the Bank of England prescribes scales of minimum and maximum brokerage to be paid by banks to recognised brokers, of which Marshalls is one. Under current arrangements, Authorised Banks have agreed not to use the services of a broker operating from an office in the United Kingdom which is not a recognised broker nor, except in specified circumstances, to deal directly with other banks in foreign exchange.

Marshalls has been a member of the Foreign Exchange and Currency Deposit Brokers' Association in London since its inception. The principal objects of the Association are to ensure that foreign exchange and currency deposit broking business in London is conducted in an orderly and efficient manner. There is, as yet, no comparable organisation for brokers in the sterling deposit market, but proposals for the formation of a Sterling Brokers' Association have been under consideration for some time.

Marshalls participates in the international money market through its offices around the world. We believe that a money broking group which has this international coverage and the ability to co-ordinate its operations in the different markets through a worldwide communications system can offer a more comprehensive service and more competitive prices than can brokers with fewer offices. On a normal working day, the geographical spread of Marshalls' offices enables at least one office to be active in the markets at all times. Partly as a result of this international coverage, Marshalls has been able to establish an important position in international foreign exchange broking; in the year ended 30th April, 1979 more than half of the Group's brokerage commission was earned from this source.

Marshalls' largest office is in London and it also has offices in Jersey, Glasgow, Dublin, New York, San Francisco, Toronto, Panama, Singapore, Hong Kong and Sydney and a representative in Tokyo. In Bahrain and Kuwait it has management contracts to operate broking companies owned in conjunction with local associates. The New York office was merged in 1977 with Lasser Bros., Inc. to form Lasser Marshall Inc. ("Lasser"). Marshalls' newest office, in Sydney, will shortly commence trading. Marshalls also has agency arrangements with brokers in Amsterdam, Antwerp, Brussels, Frankfurt, Geneva, Kuala Lumpur, Luxembourg, Madrid, Milan, Paris and Zurich which enable its offices to increase their coverage of these centres. The brokerage commission produced by this worldwide network in the year ended 30th April, 1979 can be summarised as follows:—

	£'000
London, Jersey, Glasgow and Dublin	6,343
New York, San Francisco, Toronto and Panama	5,790
Singapore, Hong Kong, Bahrain and Kuwait	3,339
	15,472

(b) United States Securities Trading

In addition to money broking, Lasser participates in the short term United States money market by trading as a principal through repurchase agreements. Repurchase agreements ("RPs") are transactions which enable banks, major corporations and Government securities dealers and other financial firms to trade large amounts of liquid funds with one another through sales of securities with simultaneous agreements to repurchase them after periods as short as one day and rarely longer than 90 days. The securities involved are typically United States Government and Federal agency securities but can include other securities such as certificates of deposit of large banks. Lasser operates in this market by trading with customers wishing to buy or sell such securities in order to lend or borrow short term funds. Lasser concludes RPs with both the buyer and the seller as a principal and derives its earnings from the difference in the interest rates on the funds involved in the transactions.

Transfer of securities and funds takes place simultaneously and a margin is always established between the market value of the securities involved and the quantity of funds supplied. When the maturities of Lasser's RPs portfolio are matched its exposure in the event of default by its customer would be related to any change in the market value of the underlying security in excess of the margin during the period before the transaction with the defaulting customer can be settled. When Lasser takes positions by concluding RPs for unmatched periods or in respect of securities it has purchased outright it is also exposed to movements in interest rates on the unmatched part of its portfolio and may realise a profit or loss from changes in the underlying value of securities it has purchased outright.

Lasser's exposure to potential loss from adverse movements in interest rates as a result of taking positions or purchasing securities outright is assessed by reference to the amount and maturity of outstanding RPs which are not fully matched and to assumptions about possible future movements in interest rates. The Directors of the Company have laid down limits on the positions which Lasser may take based on the potential for loss so estimated.

(c) Financial Services

The Saturn group commenced trading in 1974 to provide additional financial services in the markets in which the Group already operated by extending the range of services offered to existing customers and with the objective of making these markets available to a wider group of customers.

Saturn Management Limited ("SML") provides equipment leasing consultancy services, primarily to the United Kingdom public sector. The fees received by SML are related to the cost of the capital equipment and are normally paid by the lessee, as SML's client, rather than by the lessor. SML was the first specialist consultant to enter the fast expanding equipment leasing market and has achieved a considerable reputation as a consultant in this field.

Saturn Fund Management Limited ("SFML") provides fund management services to Saturn Investment Management Company Limited ("SIMCO"), the manager of two short term money funds which are widely used by stockbrokers, accountants and other professional advisers. These funds enable a number of small deposits to be combined into larger marketable amounts, which then are placed at more advantageous rates in the sterling money market exclusively with Local Authorities and with clearing banks and their subsidiaries. SFML also manages the other funds the Group has under management including, jointly with other advisers, the Quest group of unit trusts based in Jersey.

Saturn's other interests include shareholdings in Spedley Holdings Limited (14.9 per cent.), merchant bankers in Australia, and Gulf Financial Services Limited (22.0 per cent.) and Pan Arab Management KCSC (24.5 per cent.) which offer financial services in the Middle East.

Directors

The joint Managing Directors of the Company are Mr. M. J. L. Kelly, Mr. K. Hughesdon, Mr. D. G. Scotchbrook and myself and in conjunction with others we formed the Company in 1972. I have been Chairman of the Company since its incorporation and my principal responsibility is for the formulation of the Group's corporate and financial policies. I am aged 43. Mr. M. J. L. Kelly (47) is Chairman of Marshalls, which he joined in 1957. From 1971 to 1976 he was Chairman of the Foreign Exchange and Currency Deposit Brokers' Association in London and a member, under the chairmanship of the Bank of England, of the Joint Standing Committee, concerned with the foreign exchange market. Mr. K. Hughesdon (47) is Chairman of Saturn and also a Director of Marshalls. He joined the Cater Ryder group in 1967 in order to form Cater (Brokers) Limited and is a member of the Bank of England's Joint Standing Committee to establish a Sterling Brokers' Association. Mr. D. G. Scotchbrook (44) is Deputy Chairman of Marshalls which he joined in 1961. He has special responsibility for the foreign exchange department.

There are four other executive Directors of the Company. Mr. P. G. Bainbridge (32) joined the Group in 1968. He is Chief Executive of Saturn and was appointed a Director of the Company in May, 1979. Mr. M. A. Knowles (37) joined Marshalls in 1965 and was appointed a Director of the Company in December, 1978. He is a joint Managing Director of Marshalls and is responsible for all foreign exchange and currency dealing in the London office. Mr. M. J. Pyle (44) joined Marshalls in 1966 and was appointed a Director of the Company in June, 1978. He is Chief Executive of Marshalls and is responsible for its worldwide operations, including North America, the Middle East and the Far East. Mr. M. J. Warren (42) joined Cater (Brokers) Limited in 1967 and was appointed a Director of the Company in December, 1978. He is a joint Managing Director of Marshalls responsible for all aspects of the United Kingdom domestic sterling market and is also Marshalls' Staff Director.

All the executive Directors have entered into service agreements for a period of five years.

There are two non-executive Directors of the Company. The Earl of Carrick (47) was appointed a Director in May, 1978. He is also a Director of The Bowater Corporation Limited and Chairman and Managing Director of its subsidiary Ralli Brothers (Trading) Limited which is a major commodity trader and broker. Mr. G. W. Fyfe (67) was appointed a Director in 1976. He is also a non-executive Director of Globe Investment Trust Limited and of Electra Investment Trust Limited.

Staff

The Group's business depends to a considerable degree on the broking ability of its dealers. The Group pursues an active recruiting policy and Marshalls runs a comprehensive training scheme for new dealers.

The Group employs a total staff of 537 of whom 513 are employed by Marshalls and 24 by Saturn. The largest offices are London and New York. London employs 263 of whom 154 are dealers and New York employs 143 of whom 112 are dealers.

Marshalls' dealers are remunerated in accordance with market practice, usually by fixed salary and by bonus. Bonus levels are at the discretion of the Board and are based on profitability and assessment of individual staff performance. A fixed proportion of Lasser's profits is paid into a bonus pool out of which individual staff bonuses are paid at the discretion of management. In the year ended 30th April, 1979 the total remuneration of the Group's employees (including executive Directors) amounted to approximately £6,646,000, representing some 49 per cent. of total operating expenses.

The Group has established pension schemes for all the permanent staff of the United Kingdom companies and of the majority of the overseas subsidiaries. The present annual cost of the schemes to the Group is approximately £245,000.

It has always been the Company's policy to encourage employees to hold shares in the Company. Following this Offer for Sale, and before taking into account any shares which may be purchased under the Offer for Sale, 23 per cent. of the issued Ordinary Share capital will be held by a total of 141 employees (including executive Directors).

Proceeds of the Issue and Working Capital

Of the 2,000,000 Ordinary Shares now being offered for sale, 620,000 are new Ordinary Shares for which S. G. Warburg & Co. Ltd. has agreed to subscribe in cash ("the Subscription") and 1,380,000 are being made available by existing shareholders. The net proceeds of the Subscription are estimated at £700,000, after deduction of the expenses of the Offer for Sale to be borne by the Company.

The net proceeds of the Subscription, in addition to providing increased working capital, will strengthen the capital base of the Company and will facilitate the continued development of the Group by internal growth and, as and when suitable opportunities occur, by acquisition.

The net assets of the Group at 30th April, 1979, as shown in the Accountants' Report and after deducting the premium on acquisition of subsidiaries, amounted to £2,380,000. On this basis and taking into account the net proceeds of the Subscription, the net assets attributable to each Ordinary Share in issue following this Offer for Sale are 56p.

The Directors are of the opinion that, having regard to the cash resources of the Group and to the net proceeds of the Subscription, the Company and its subsidiaries have ...

Mercantile House Holdings Limited
— Continued

Profits

The Group's recent record is one of consistent growth. Since 1975 profits before and after taxation have increased in each year and, with the exception of 1978, which included the initial effect of the acquisition of Lasser Bros., Inc., earnings per share have also increased year by year. The Group's policy of continuing investment for the future has been an important factor in this growth; the increase in profits has been achieved during a period of substantial expenditure on expanding the size and number of Marshalls' offices and on development of the activities of the Saturn group, which is now making a contribution to Group profits.

The results for the year ended 30th April, 1979 are set out in the Accountants' Report and show profits before taxation of £2,604,000 and earnings attributable to Ordinary Shareholders of £1,315,000. *It is too early to make a profit forecast for the current year ending 30th April, 1980.* However, taking by way of illustration the earnings for the year ended 30th April, 1979, and assuming the net proceeds of the Subscription were placed on deposit for a full year to earn interest at the rate of 6 per cent. after taxation at 52 per cent., the earnings attributable to Ordinary Shareholders would be £1,357,000.

On the basis of the 5,500,000 Ordinary Shares in issue following this Offer for Sale, this is equivalent to earnings per Ordinary Share of 24.7p and, at the Offer for Sale price of 160p, the price/earnings multiple is 6.5 times.

Dividends

The total dividend payment in respect of the year ended 30th April, 1979, on the basis of the issued share capital of the Company following the capitalisation issue, was 10.72p per Ordinary Share (equivalent to 15.31p per Ordinary Share inclusive of the related tax credit at the current rate of 3/7ths). In the absence of unforeseen circumstances, the Directors intend to recommend a total dividend in respect of the current year ending 30th April, 1980 of not less than 10.72p per Ordinary Share on the increased share capital. A total dividend of 10.72p per Ordinary Share would be covered 2.3 times by earnings of £1,357,000 as set out above and would represent a gross yield of 9.6 per cent. on the Offer for Sale price of 160p.

It is intended that the total dividend payments in respect of a financial year will be split between an interim dividend, normally payable in February of each year, of approximately one-third of the total dividend payable and a final dividend, normally payable in August of each year.

The Future

Since 1967 the business of the Group has grown substantially. We have pursued a policy of expanding the money broking business into established and newly developing financial centres and through Saturn we have broadened the range of financial services offered by the Group. We intend to continue this policy.

The nature of Marshalls' business, having regard to fluctuations in levels of *activity in the international money markets*, makes it difficult to gauge the demand for its services in advance. Nevertheless we believe that there is considerable scope for further development of Marshalls through increasing our coverage of existing markets and by extending our business into new geographical areas; we also believe that our strong position in the increasingly important North American markets will be a major factor in this growth. We will keep under constant review the costs of operating the international service required by the markets and we consider that in the future Marshalls will obtain a significant proportion of the broking income available on a profitable basis.

We are confident that Saturn's contribution to Group profits will become increasingly important in the years ahead and we plan to enlarge its activities by expanding the existing business and by moving into related financial fields when suitable opportunities occur. It continues to be our policy to confine our activities to the financial fields for which we have the necessary experience and expertise.

The Directors consider that the Group is well placed to take advantage of opportunities for continued expansion in the United Kingdom and overseas as they occur. We view the future with confidence.

Yours faithfully,

R. R. St. J. BARKSHIRE,
Chairman.

Accountants' Report

The following is a copy of a report to the Directors of Mercantile House Holdings Limited and of S. G. Warburg & Co. Ltd. made by the auditors and reporting accountants, Price Waterhouse & Co., Chartered Accountants.

Price Waterhouse & Co.,
Southwark Towers,
32 London Bridge Street,
London SE1 9SY.

The Directors,
Mercantile House Holdings Limited
S. G. Warburg & Co. Ltd.

11th July, 1979.

Gentlemen,

We have examined the books and accounts of Mercantile House Holdings Limited, formerly named M. W. Marshall Investments Limited, ("the Company") and of its subsidiaries (together with the Company referred to as "the Group") for the periods relevant to this report.

In our opinion, the financial information set out below, which is based on audited accounts after making such adjustments as we consider appropriate, gives a true and fair view of:—

(i) the profits and source and application of funds of the Group for the five years ended 30th April, 1979; and

(ii) the state of affairs of the Company and of the Group at 30th April, 1979.

Accounting Policies

The following are the principal accounting policies adopted by the Group which have been used in preparing the financial information set out in this report:—

Basis of accounting

The accounts have been prepared under the historical cost convention.

Basis of consolidation

The Group accounts deal with the accounts of the Company and all United Kingdom subsidiaries made up to 30th April, and with the accounts of all overseas subsidiaries made up to 31st March. The results of companies acquired during a financial year are included in the Group accounts from their effective dates of acquisition.

Rates of exchange

Foreign currency amounts are expressed in sterling as follows:—

(i) Monetary assets and liabilities at rates ruling at the respective year ends.
(ii) Income and expenditure other than depreciation at the average rates for the year.
(iii) Fixed assets, depreciation, investments and premium on acquisition of subsidiaries at rates ruling at date of acquisition.

Gains or losses arising from the translation of foreign currency net current assets are included in the profit and loss accounts.

Turnover

Turnover of the Group comprises:—

(i) Revenue from money broking, where the Group takes credit for brokerage commission at the time the deal is negotiated.
(ii) Income from United States securities trading.
(iii) Income from financial services.

Deferred taxation

Provision is made for deferred taxation at current tax rates in respect of all timing differences except those which it can be demonstrated with reasonable probability will continue in the future. Deferred tax also takes account of advance corporation tax recoverable in future years.

Fixed assets

Fixed assets are stated at cost less depreciation.

Leasehold property and improvements are amortised by equal annual instalments over the period of the lease.

Depreciation on assets leased to third parties is calculated on a straight line basis over the primary period of the lease.

Depreciation on other fixed assets is calculated to write off cost mainly on a straight line basis over their estimated useful lives; the principal rates of depreciation used by the Group are 10 per cent. and 20 per cent.

United States securities trading

Transactions in securities (United States Government securities and other negotiable instruments) principally comprise repurchase agreements where a sale and a simultaneous repurchase is made for settlement at a later date, and reverse repurchase agreements where a purchase and a simultaneous resale for settlement at a later date is undertaken. Income is derived from the difference between the interest rates involved in these transactions and from any profit or loss resulting from outright purchases of the securities.

Premium on acquisition of subsidiaries

Premium on the acquisition of subsidiaries comprises the excess of cost over the value of net tangible assets acquired and is stated at cost to the Group. The premium also includes certain pre-incorporation costs incurred in establishing overseas offices.

Profit and Loss Accounts

The consolidated results of the Group for the period under review were as follows:—

	Notes	1975 £'000	1976 £'000	1977 £'000	1978 £'000	1979 £'000
		Years ended 30th April				
Turnover	2	4,422	6,587	8,020	11,159	16,288
Operating expenses	3	3,751	5,262	6,593	9,448	13,685
Operating profit		671	1,325	1,427	1,711	2,603
Share of profits/(losses) of associated companies		—	—	(14)	—	1
Profit before taxation		671	1,325	1,413	1,711	2,604
Taxation	4	386	651	565	804	1,289
Profit after taxation		285	674	848	907	1,315
Minority interests		33	—	—	—	—
Profit attributable to shareholders		252	674	848	907	1,315
Dividends	5	—	246	328	429	523
Retained earnings		252	428	520	478	792
Earnings per Ordinary Share	6	7.9p	19.8p	22.6p	20.6p	26.9p
Rate of Dividend per Ordinary Share	5	—	7.8p	8.7p	9.7p	10.7p

Balance Sheets at 30th April, 1979

	Notes	The Group £'000	The Group £'000	The Company £'000	The Company £'000
Fixed assets	7		1,313		—
Premium on acquisition of subsidiaries			2,700		—
Trade investments	8		166		—
Subsidiary companies			—		1,002
Current assets					
Amounts receivable under agreement to resell United States securities		144,494		—	
United States negotiable instruments under agreement to repurchase		16,941		—	
Debtors		4,013		—	
Current accounts with subsidiaries		—		2,706	
Bank balances		2,186		—	
		167,634		2,706	
Less:— **Current liabilities**					
Amounts payable under agreement to repurchase United States securities		161,862		—	
Creditors		3,064		—	
Current accounts with subsidiaries		—		38	
Bank overdraft		—		251	
Taxation		1,225		491	
Proposed dividends		523		523	
		166,674		1,303	
Net current assets			960		1,403
Total assets less current liabilities			5,139		2,405
Deferred taxation	4		59		—
Net assets including premium on acquisition of subsidiaries			5,080		2,405
Represented by:—					
Share capital	9		610		610
Share premium account	9		1,743		1,743
Retained earnings			2,727		52
			5,080		2,405

Statement of Source and Application of Funds

	1975 £'000	1976 £'000	1977 £'000	1978 £'000	1979 £'000
	The Group — Years ended 30th April				
Source of funds					
Profit before taxation	671	1,325	1,413	1,711	2,604
Adjustments for items not involving the movement of funds:—					
Depreciation	107	124	147	228	293
Write-down of investments in associated companies	—	2	—	50	6
Share of (profits) losses of associated companies	—	—	14	—	(1)
Total generated from operations	778	1,451	1,574	1,989	2,902
Funds from other sources					
Sale of fixed assets	52	37	25	122	219
Issue of shares	—	509	—	1,445*	—
	830	1,997	1,599	3,556	3,121
Application of funds					
Dividends paid	24	117	227	230	475
Tax paid	389	40	653	843	1,180
Purchase of fixed assets	250	167	227	947	732
Premium on acquisition of subsidiaries	120	198	95	1,505	—
Purchase of trade investments	—	2	114	158	10
Minority interests	—	63	—	—	—
	783	567	1,316	3,683	2,397
Changes in working capital					
Increase/(decrease) in:—					
Debtors	(1,888)	439	322	885	1,428
Amounts receivable under agreements to resell	—	—	—	143,762	732
Negotiable instruments	—	—	—	—	16,941
(Increase)/decrease in:—					
Creditors excluding taxation and proposed dividends	2,302	83	145	(2,009)	(380)
Amounts payable under agreements to repurchase	—	—	—	(143,844)	(18,018)
	1,197	1,109	1,783	2,477	3,100
Increase/(decrease) in net liquid funds	(367)	888	(184)	1,079	21

*Net tangible assets of Lasser Bros., Inc. on 1st September, 1977, the effective date of acquisition, were:—

	£'000
Fixed assets	407
Amounts receivable under agreements to resell	307,524
Other debtors	1,284
Bank balances	295
Amounts payable under agreements to repurchase	(307,412)
Other creditors	(2,065)
	33
Premium arising on acquisition	1,412
	1,445

Notes to the Financial Statements

1. Acquisition of Lasser Bros., Inc.

The Company acquired from The J. P. Cabot Equity Corp. ("Cabot") with effect from 1st September, 1977, Lasser Bros., Inc. ("Lasser"). The consideration was satisfied by the issue of 560,000 Ordinary Shares of 25p each on 29th May, 1978, such shares being credited as fully paid ranking pari passu with existing Ordinary Shares of the Company including the right to all dividends paid or declared in respect of the financial year ended 30th April, 1978. Although subsequent conditions had to be met, Lasser traded as part of the Group from 1st September, 1977 and the Financial Statements have reflected the position as if the Ordinary Shares had been issued on 1st September, 1977 and include the results of Lasser from that date. The cost of acquisition of Lasser includes £45,000 representing dividends payable by the Company to the vendor in respect of the period prior to 1st September, 1977.

2. Turnover

	1975 £'000	1976 £'000	1977 £'000	1978 £'000	1979 £'000
Money broking					
—United Kingdom, Ireland and Channel Islands	2,589	4,252	4,585	5,036	6,343
—Overseas offices	1,789	2,259	3,330	5,731	9,129
United States securities trading	—	—	—	190	362
Financial services	44	76	105	202	454
	4,422	6,587	8,020	11,159	16,288

3. Operating Expenses

	1975	1976	1977	1978	1979
Operating expenses include the following:—					
Depreciation and amortisation	107	124	147	228	293
Exchange translation (gains)/losses	(95)	(181)	(97)	71	(17)
Costs incurred in setting up associated companies	—	173	—	—	—
Interest payable	27	—	—	—	—

4. Taxation

	1975	1976	1977	1978	1979
(a) The charge for taxation, which is based on the profits of each year, comprises:—					
UK Corporation Tax at 52 per cent.	344	452	382	406	491
Double taxation relief	(72)	—	—	(78)	(170)
	272	452	382	328	321
Overseas tax	133	196	148	399	849
Deferred tax arising from accelerated capital allowances	(19)	3	35	77	119
	386	651	565	804	1,289

(b) No provision has been made for further taxation (amounting in total to £950,000 at 30th April, 1979) which would be payable if attributable overseas profits of subsidiaries were remitted to the United Kingdom.

(c) Deferred taxation at 30th April, 1979, which is provided in full, comprises:—

	£'000
Timing differences arising from accelerated capital allowances	283
ACT recoverable on dividends payable	(224)
	59

5. Dividends

The rate of dividend for each year has been adjusted to take account of a capitalisation issue of shares on 11th July, 1979 (Note 9) and, so far as concerns 1976, does not include a special dividend of £52,500 paid to one shareholder only.

The Directors of the Company and certain employees of the Group waived their rights to dividends totalling £99,189 (7.8p per share) in respect of the year ended 30th April, 1976.

6. Earnings per Ordinary Share

The calculation of earnings per Ordinary Share is based on the profit attributable to shareholders for each year and on the weighted average number of shares in issue during each year, after adjusting for capitalisation issues of shares on 15th December, 1975 and 11th July, 1979 (Note 9) and for the issue of shares on 29th May, 1978 as if it had taken place on 1st September, 1977 (Note 1).

7. Fixed Assets

	£'000
Cost	
Improvements to short leasehold properties	446
Furniture, fixtures, motor vehicles and equipment	1,387
Assets leased to third parties	196
	2,029
Accumulated depreciation	716
Net book amount	1,313

8. Trade Investments

	£'000
Shares in associated companies at cost together with the Group's share of accumulated undistributed profits less losses and amounts written off	7
Other trade investments at cost	159
	166
Directors' valuation	166

9. Share Capital

	£'000
Authorised 3,000,000 Ordinary Shares of 25p each	750
Issued and fully paid 2,440,000 Ordinary Shares of 25p each	610

On 11th July, 1979 the authorised share capital of the Company was increased to £1,750,000 by the creation of an additional 4,000,000 Ordinary Shares of 25p each. On the same date 2,440,000 Ordinary Shares of 25p each were issued credited as fully paid to existing holders of Ordinary Shares by way of capitalisation of £610,000 standing to the credit of the share premium account. Under the terms of a contract dated 11th July, 1979 the Company has conditionally agreed to issue for cash a further 630,000 Ordinary Shares of 25p each at 156.8p per share.

10. Guarantees and Contingent Liabilities

(a) The Company has given guarantees in respect of the trading obligations of Lasser Marshall Inc.

(b) The Company has given an undertaking to the Bank of England that in the event of Cabot disposing of all or any of its shareholding in the Company, the Company will compensate the United Kingdom official foreign reserves. On 11th July, 1979 Cabot entered into a conditional agreement for the sale of its shareholding to S. G. Warburg & Co. Ltd. for the purpose of the Offer for Sale. The compensatory transaction will involve the Company selling in the official market an amount of foreign currency equal to the value of those shares at the time of issue reduced by the amount of all financial benefits which have been received in the United Kingdom as a result of this acquisition. The compensatory transaction is not expected to have a material effect on the financial position of the Group.

11. Capital Commitments

Capital expenditure authorised at 30th April, 1979 amounted to £127,000 of which contracts were still to be placed for £90,000.

Yours faithfully,
PRICE WATERHOUSE & CO.,
Chartered Accountants.

Statutory and General Information

1. Share Capital

The Company was incorporated in England as a private company on 28th June, 1972 under the Companies Acts 1948 to 1967 and was converted into a public company on 15th December, 1975. Its registered number is 1059719.

There have been the following changes in the authorised and issued share capital of the Company during the two years preceding the date of this Offer for Sale:—

(i) On 29th March, 1978, the authorised capital of the Company was increased from £500,000 to £750,000 by the creation of 1,000,000 additional Ordinary Shares of 25p each.

(ii) On 29th May, 1978, as consideration for the acquisition of the share capital of Lasser Bros., Inc., 560,000 Ordinary Shares were issued, credited as fully paid.

(iii) On 11th July, 1979, the authorised share capital of the Company was increased from £750,000 to £1,750,000 by the creation of 4,000,000 new Ordinary Shares of 25p each, and 2,440,000 new Ordinary Shares of 25p each were issued credited as fully paid to existing holders of Ordinary Shares, pro rata to their holdings, by way of capitalisation of £610,000 standing to the credit of the share premium account on the basis of one new Ordinary Share for each Ordinary Share already held.

Immediately following this Offer for Sale, the authorised share capital of the Company will consist of £1,750,000 divided into 7,000,000 Ordinary Shares of 25p each. The issued share capital will consist of £1,375,000 divided into 5,500,000 Ordinary Shares of 25p each.

Save as disclosed in this Offer for Sale and for intra-Group transactions:—

(a) no share or loan capital of the Company or of any of its subsidiaries has been issued within the two years immediately preceding the date of this Offer for Sale or is now proposed to be issued, fully or partly paid, either for cash or *for a consideration* other than cash;

(b) no commissions, discounts, brokerages or other special terms have been granted by the Company or any of its subsidiaries within the said two years in connection with the issue or sale of any share or loan capital of such companies; and

(c) no capital of the Company or of any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.

No material issue of shares of the Company (other than consequent upon an offer to shareholders pro rata to their existing shareholdings) will be made within one year of the date of this Offer for Sale without prior approval of the Company in general meeting.

Following this Offer for Sale 1,500,000 Ordinary Shares of 25p each of the Company will remain unissued but no issue of such shares which would effectively alter the control of the Company will be made without prior approval of the Company in general meeting.

2. Articles of Association

The Articles of Association of the Company contain, inter alia, provisions to the following effect:—

Voting

Subject to any special terms as to voting upon which any shares may for the time being be held, at any General Meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under Section 139 of the Companies Act 1948, not being himself a member, shall have one vote, and in the case of a poll every member present in person or by proxy shall have one vote for every 25p nominal amount of the shares held by him.

Directors

(a) A Director shall not be required to hold any qualification shares.

(b) The remuneration of the Directors shall from time to time be determined by the Company in General Meeting and any such remuneration shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Directors as they shall agree, or, failing agreement, equally. The Directors shall also be entitled to be repaid all travelling and hotel expenses incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Board Meetings, Committee Meetings or General Meetings, or otherwise incurred while engaged on the business of the Company. If by arrangement with the other Directors any Director shall perform or render any special duties or services outside his ordinary duties as a Director, the Board may pay him special remuneration, in addition to any fees or ordinary remuneration, and such special remuneration may be by way of salary, commission, participation in profits or otherwise as may be arranged, and shall be charged as part of the Company's ordinary working expenses.

(c) The Board has power to pay pensions or other retirement benefits to, inter alios, Directors and ex-Directors of the Company and its subsidiaries holding or who have held any salaried employment or office and their wives, widows, families and dependants.

(d) A Director may be appointed by the Board to any other office or place of profit under the Company (except that of Auditor) for such period, on such terms and at such remuneration as the Board may determine.

(e) No Director or intending Director shall be disqualified by his office from contracting with the Company nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way directly or indirectly interested be liable to be avoided nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised thereby, save that the nature of his interest must be declared by the Director at the meeting of the Board when the contract or arrangement is first taken into consideration or at the first meeting of the Board held after the Director became so interested.

(f) A Director shall not, save as otherwise provided, vote in respect of any contract or arrangement or any other proposal whatsoever in which he has any material interest, otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company. A Director shall not be counted in a quorum at a meeting in relation to any Resolution on which he is debarred from voting.

(g) A Director shall (in the absence of some other material interest than is indicated below) be entitled to vote (and be counted in a quorum) in respect of any Resolution concerning any of the following matters, namely:—

(i) the giving of any security or indemnity to him in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiaries for subscription or purchase in which offer he is or is to be interested as a participant in the underwriting or sub-underwriting thereof;

(iv) any proposal concerning any other company in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise howsoever provided that he is not the holder of or beneficially interested in 1 per cent. or more of any class of the equity share capital of such company (or of a third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed to be a material interest in all circumstances); and

(v) any proposal concerning the adoption, modification or operation of a superannuation fund or retirement benefits scheme under which he may benefit and which has been approved by or is subject to and conditional upon approval by the Board of Inland Revenue for tax purposes.

(h) Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment) of two or more Directors to offices or employments with the Company or any company in which the Company is interested, such proposals may be divided and considered in relation to each Director separately and in such cases each of the Directors concerned (if not debarred from voting under paragraph (g) (iv) above) shall be entitled to vote (and be counted in the quorum) in respect of each resolution except that concerning his own appointment.

(i) If any question shall arise at any meeting as to the materiality of a Director's interest or as to the entitlement of any Director to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the Chairman of the meeting and his ruling in relation to any other Director shall be final and conclusive except in a case where the nature or extent of the interests of the Director concerned has not been fairly disclosed.

(j) The Company may by Ordinary Resolution suspend or relax the provisions summarised under paragraphs (f), (g), (h) and (i) above to any extent or ratify any transaction not duly authorised by reason of a contravention of such provisions.

(k) No person shall be or become incapable of being appointed a Director by reason of his having attained the age of seventy or any other age, nor shall special notice be required in connection with the appointment of such person and no Director shall vacate his office at any time by reason of the fact that he has attained the age of seventy or any other age.

Borrowing Limits

The Directors may borrow or raise from time to time such sums of money as they think necessary for the purposes of the Company. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of moneys borrowed by it or them or any of them (exclusive of moneys borrowed by the Company or any of its subsidiaries from any other of such companies) shall not at any time, without the previous sanction of the Company in General Meeting, exceed a sum equal to two and one half times the aggregate of the adjusted total (which inter alia excludes goodwill) of the share capital and reserves of the Company as shown in a consolidation of the then latest audited Balance Sheets of the Company and each of its subsidiary companies.

3. Subsidiary Companies

The principal subsidiary companies, none of whose shares are listed on a stock exchange and all of which are wholly owned, are as follows:—

Business	Place and Date of Incorporation	Issued Share Capital
Money Broking		
M. W. Marshall & Company Limited	England, 27th March, 1962	£8,500
M. W. Marshall (C.I.) Limited	Jersey, 30th October, 1972	£5,000
Marshalls (Ireland) Limited	Ireland, 4th December, 1970	IR. £1,000
Lasser Marshall Inc.	U.S.A. (New York), 27th March, 1970	U.S. $210,100
M. W. Marshall (Canada) Limited	Canada, 17th November, 1969	C. $5,000
Marshalls Panabrokers Limited	Cayman Islands, 8th April, 1975	U.S. $3
Marshalls Panabrokers S.A.	Panama, 13th January, 1975	U.S. $1,000
Marshalls (Singapore) Pte. Limited	Singapore, 26th April, 1972	S. $100,000
Marshalls (Hong Kong) Limited	Hong Kong, 5th December, 1972	H.K. $10,000
M. W. Marshall & Company Pty. Limited	Australia, 12th April, 1979	A. $10,000
Financial Services		
Saturn Holdings Limited	England, 19th December, 1973	£10,000
Saturn Management Limited	England, 4th December, 1973	£100
Saturn Management Limited	Ireland, 15th March, 1979	IR. £10,000
Saturn Fund Management Limited	England, 29th May, 1973	£100
Saturn Investment Management Company Limited	England, 4th December, 1973	£10,000
Mercantile House Nominees Limited	England, 21st March, 1974	£100
Management, Investment and Dealing		
M. W. Marshall (Sterling) Limited	England, 15th May, 1967	£1,100
M. W. Marshall (Currency) Limited	England, 14th February, 1969	£100
M. W. Marshall (International) Limited	England, 14th February, 1969	£100
M. W. Marshall (Overseas) Limited	England, 5th July, 1972	£100
Marshalls S.A.	Switzerland, 6th February, 1980	Sw. Fr. 250,000
Saturn Securities Limited	England, 29th May, 1973	£100
Saturn Investments Limited	England, 4th December, 1973	£1,100
Cloak Lane Leasing Limited	England, 29th May, 1973	£100
M. W. Marshall Investments (C.I.) Limited	Jersey, 22nd May, 1975	£7,000
Saturn Securities (Hong Kong) Limited	Hong Kong, 1st October, 1976	H.K. $10,000
M. W. Marshall (Australia) Pty. Limited	Australia, 3rd May, 1977	A. $250,000

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BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date		Venue
Current	The Royal Tournament (01-930 6002) (until July 28)	Earls Court
July 15—22	One World Wine Fair and Festival (Bristol 211617)	Bristol Exbn. Centre
July 17—19	East of England Show (0733 234451)	Peterborough
July 19—21	Liverpool Show (051-724 2371)	Liverpool
July 20—22	Post Street and Custom Car Show (01-464 5445)	Brighton
July 23—27	How to sell into the Common Market Exhibition—INPO EXPO (01-249 4444)	Wembley Conference Centre
July 23—28	Middle East Business Expo '79 (01-839 5816)	Grosvenor House
July 24—26	Brighton Antiques Fair (04862 22562)	Corn Exchange, Brighton
July 24—26	Royal Welsh Show (Builth Wells 3683)	Builth Wells, Powys
July 25—27	Vendaprosing Exhibition (01-261 8000)	West Centre Hotel, Fulham
July 27—Aug. 1	British Musical Instrument Trade Fair (01-428 4700)	Olympia
July 29—Aug. 2	International Gift Fair (01-886 9201)	Olympia
July 31—Aug. 4	Tyneside Summer Exhibition (0632 28520)	Newcastle upon Tyne
Aug. 5—8	British Furniture Manufacturers Exhn. (01-724 0851)	Manchester
Aug. 12—15	Motorcycle Car Show (08833 4871)	Bristol Exbn. Centre
Aug. 28—Sept. 1	International Motor Cycle Show (01-741 2156)	Earls Court
Sept. 7—12	Internatl. Hardware Trades Fair (St. Albans 63213)	Olympia

OVERSEAS TRADE FAIRS AND EXHIBITIONS

July 16—20	Wood '79—The International Forestry Development, Timber Processing and Wood Working Exhibition	Singapore
July 23—28	International Engineering Exhibition	Melbourne
July 23—27	International Public Works and Municipal Services Exhibition—CIVILCON (01-486 1951)	Johannesburg
Aug. 7—11	Horse Show (Dublin 680645)	Dublin
Aug. 8—10	Computer Exhibition (01-930 7985)	Hong Kong
Aug. 11—18	Austrian Timber Fair (01-584 6939)	Klagenfurt
Aug. 12—16	National Hardware Show	Chicago
Aug. 13—17	ENVIRO '79—The International Environmental and Engineering Exhibition	Singapore
Aug. 17—26	International Trade Fair (01-486 1951)	Malmo
Aug. 20—Sept. 20	International Fair	Izmir
Aug. 20—24	International Packaging and Food Processing Exhibition—PAKPROCESS (01-486 1951)	Zurich
Aug. 24—Sept. 2	International Radio and TV Exbn. (01-540 1101)	Berlin
Aug. 25—29	Enspa: International Shoe Samples Fair	Frankfurt
Aug. 25—29	International Fair (01-734 0543)	Johannesburg
Aug. 26—29	International Fair (01-734 0543)	Frankfurt
Aug. 27—30	Pharmaceutical and Chemist Supplies Exhibition (01-486 1951)	Utrecht
Aug. 28—31	Electrical and Electronics Components Exhibition	Gothenburg
Aug. 29—Sept. 12	Timber and Woodworking Industry Exhibition	Moscow
Aug. 31—Sept. 9	International Fair of Consumer Goods (01-874 6034)	Stockholm

BUSINESS AND MANAGEMENT CONFERENCES

July 17	Institute of Purchasing and Supply: Oil—How serious a crisis? (Ascot 23711)	Grosvenor House Hotel, W1
July 17—19	ASM: Management of the Drawing Office (01-385 1992)	Piccadilly Hotel, W1
July 17—18	Benn Publications: Machinery, Adding Value and Marketing (01-353 3212)	Singapore
July 18	Offshore Centre: Oil and Gas Developments and Energy Programmes in Argentina (01-439 9021)	Regent Street, W1
July 18	LCCI: Europe—Middle East Transport and Trade (01-248 4444)	69 Cannon Street
July 18—20	Lloyd's of London Press—BILA London Colloquium 79 (01-353 1000)	University College, London
July 19—20	The Institute of Metallurgical Technicians: Heat Treatment—Methods and Media (01-446 2251)	University of Aston
July 20	INCOMTEC: Product Liability—Law and Practice in Britain and Abroad (0276 62677)	Europa Hotel, W1
July 22—27	DIB: Speaking Course Based on Special Industrial Subjects (00441 27671774)	Bagshot, Surrey
July 22—27	CCC: A Practical Guide to Business Law in the UK (01-222 8362)	Queen's College, Cambridge
July 22—28	Centre for Extension Studies: Summer Programme (0509 63171)	University of Technology, Loughborough
July 23—24	Financial Times: Budget 1979—New directions for the British Economy (01-236 4382)	Dorchester Hotel, Park Lane, W1
July 23—27	BACIE: Training for the Office (01-636 5351)	Seckville Hotel, Hove
July 24—25	LAMSAC: Housing Management and the Computer (01-828 2333)	Regent's Park, NW1
July 26—27	LAMSAC: Mini and Micro Computers in Local Government (01-828 23333)	Regent's Park, NW1
July 30—Aug. 1	Oyez-IBC: International Conference on Cohesive Sediments (01-242 2481)	Churchill College, Cambridge
July 30—Aug. 17	Compower: Basic Trainee Programming Course (Cannock 2511)	Cannock, Staffs.
July 31	British Safety Council: Product Liability—Let the Seller Beware (01-741 3812)	Hilton Hotel, W1
Aug. 1—2	MSS Computer and Business Consultancy: The Executive Secretary (Worthing 34755)	Worthing

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagement during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY, JULY 16

COMPANY MEETING—
Brook Street Bureau, 116 Pall Mall SW, 11.00

BOARD MEETINGS—
Finals:
Ascd. Leisure
Comml. Bk. Near East
Crown House
Hampton Tst.
Kakuzi
Meyer (Montague L.)
Ratners (Jewellers)
Vinten

Interims:
Alexanders Discount
Kershaw (A.)
Lowe (Robert H.)
Megsitt Hldgs.
Pank Orgn.
Wearra

DIVIDEND & INTEREST PAYMENTS—
Anglo-American Secs. Corp 4½pcPf, 1.575pc. Ln. 2pc
Associated Snapp Ord 0.07p. Stk Units 1.56p
Bass 2.1p
Broadstone Inv Trust 5pcPf 1.75pc, 5½pc Pf 1.925pc
Coras Iompair Eireann 12½pc 1980 6¼pc. 6pc 1977-82 3pc. 3pc 1975-85 1½pc
Devenish (J. A.) 2.123p
Fortnum & Mason Ord 19.72p
General Funds Inv Trust 5pcPf 1.75pc. Deb 2½. 3pc
Home 6pcPf 2.1pc
Industrial & General Trust Deb 1½pc (Cnv 60-80)
Jamaica 7½pc 1977-79 3¾pc.
Kitchen Queen 0.536p
Law Land 5pcPf 1.75pc
London & St Lawrence Inv Deb 2½pc
MEPC 1.5p
Management Agency & Music 2.5125p
Moss Bros Ord 2.2789p
North Surrey Water Deb 2. 2¼. 2½. 3½pc
Samuel (H.) Ord & A 5.675p
United States & General Trust 3p. 6pcPf 1.75pc
Witan Inv 3.4pcPf 1.7pc.

TOMORROW, JULY 17

COMPANY MEETINGS—
Allied Breweries, 20 Aldermanbury, EC, 2.30
Churchbury Estates, Connaught Rooms, Great Queen St, WC, 12.30
Dom Holdings, Great Eastern Hotel, Liverpool St, EC, 12.00
Hembros Inv Trust, 41 Bishopsgate, EC, 11.30
Whitbread Inv, The Brewery, Chiswell St, EC, 12.30

BOARD MEETINGS—
Finals:
Allied Colloids
Black Arrow
Brotherhood (Peter)
HAT Grp
Heron Motor
Hogg Robinson
Magnet and Southerns
Oil and Asscd. Inv. Tst.
Stroud Riley Drummond
Trafford Carpets
Unigate

Interims:
Beckfords
Birmid Qualcast
Rootham Engs.
Glass Glover
McMullen
Meldrum Inv. Tst.
Yule Catto

DIVIDEND & INTEREST PAYMENTS—
British & American Film 2.08737p
ICL 3.5p
M & G Second Dual Trust 2.71p

WEDNESDAY, JULY 18

COMPANY MEETINGS—
Alliance Inv, 1-2 Laurence Pountney Hill, EC, 2.30
Bisichi Tin, 99 Aldwych, WC, 12.00
Brown Shipley, Founders Court, Lothbury, EC, 12.30
Continuous Stationery, 27 Eaton Place, SW, 12.00
Courtaulds, Europa Hotel, Grosvenor Square, W, 12.00
Dawson International, North British Hotel, Edinburgh, 11.45
English & International Trust, 117 Old Broad St, EC, 2.30
Gedaas (Sculls), Caxton Hall, Caxton St, SW, 12.00
Guthrie, 20 Aldermanbury, EC, 11.30
Highams, Wood Nook Mills, Accrington, 12.30
Hill (Philip) Inv Trust, 8 Waterloo Place, SW, 2.45
Tebbitt, 24 Portland Place, W, 12.00
Wedgwood, 34 Wigmore St, W, 11.00

BOARD MEETINGS—
Finals:
Braham Millar
Illingworth Morris
Jones Stroud
MFI Furniture
Priest (Benjamin)
Sylone
Vita-Tex
Western Board Mills

Interims:
Gestetner
Holt Precision Eng.
Union Discount
Wallcombers

DIVIDEND & INTEREST PAYMENTS—
English China Clays 2.1175p
Geevor Tin Mines 2.693563p
Motorola Inc 30cts
Oceana Development Inv Trust 0.67p
Time Products 4.8056p
Treasury 5tk 8¼pc 1983 4¼pc

THURSDAY, JULY 19

COMPANY MEETINGS—
Airflow Streamlines, The Saxon Inn, Silver St, Northampton, 12.00
Alpine Soft Drinks, Richmond Way, Chelmsley Wood, Birmingham, 12.00
Boots, 20 Aldermanbury, EC, 11.00
Barnett & Hallamshire, Cutlers' Hall, Church St, Sheffield, 12.00
Century Oils, Grand Hotel, Trinity St, Henley, Stoke-on-Trent, 12.00
Country & New Town Properties, 6-11 Agar St, WC, 12.00
Harrisons & Crosfield, The Baltic Exchange, 14-20 St Mary Axe, EC, 11.15
International Paint, Henrietta House, 9 Henrietta Place, W, 12.00
Leigh Interests, 75 Harborne Road, Edgbaston, Birmingham, 12.00
Locker (Thomas), Church St, Warrington, 11.00
Normand Electrical, Kensington Palace Hotel, De Vere Gardens, W, 11.45
Northern Securities Trust, 18 Finsbury Circus, EC, 12.00
Parker (Francis), Avisford Park Hotel, Walberton, Arundel, West Sussex, 12.00
Pauls & Whites, Store Lodge Lane, Ipswich, Suffolk, 12.15
Pension Fund Property Unit Trust, Café Royal, 68 Regent St, W, 12.00
Stonehill, Churchill Hotel, Portman Square, W, 11.30
Witan Inv, 11 Austin Friars, EC, 11.30

BOARD MEETINGS—
Finals:
Allnatt London Props.
Astra Ind.
Atlantic Assets Tst.
Benlox
Denovware
Distillers
Dowty
Fodens
Haslemere Ests
Hollis Bros. and ESA
Negretti and Zambra
St. Georges Laundry (Worcester)
Trustees Cpn.

Interims:
Greenfriar Inv.
Jamesons Chocolates
Parambe
Romney Tst.
South African Land Explrn.
Southvaal
Vaal Reefs Explrn. and Mng.
Western Deep Levels

DIVIDEND & INTEREST PAYMENTS—
Alliance Inv 2.7p
Bell & Sime 4.5056p
Boots 3.5p
Ellenroad Ring Mill 1.656p
General Mining & Fin Pf 5pc
Leigh Interests 2.905p
London Prudential Inv Trust 1.95p
Mansfield Brewery 5.96p
Moorhouse & Brook 3.96p. 7½pcPf 2.129pc
Normand Electrical 1.9672p
Pawson (W. L.) 1.6914p
Rowton Hotels 4.19145p
Spencer Clark Metal Inds 0.96p
Warren Plantations 5.905p
Wedgwood 2.426p

FRIDAY, JULY 20

COMPANY MEETINGS—
Billam (J.), Royal Victoria Hotel, Sheffield, 12.00
Brent Walker, 23 Tower Place, Tower Hill, EC, 4.30
Portsmouth & Sunderland Newspapers, The News Centre, Hilsea, Portsmouth, 12.30
Robertson Foods, 50 Burnhill Road, Beckenham, Kent, 10.30
Sumrie Clothes, Sumrie House, Leeds, 12.00

BOARD MEETINGS—
Finals:
Common Market Tst.
Initial Services
Lynton
Nova (Jersey) Knit
Wallis Fashion

Interims:
Carliol Inv. Tst.
Glasgow Stockholders Tst.
Lloyds Bk.
Tyneside Inv. Tst.

DIVIDEND & INTEREST PAYMENTS—
Airflow Streamlines 2.116p
Allied London Props 0.40226p
Alpine Soft Drinks 4.958p
Barlow Rand 6.474567p
Beales (John) 1.0196p
Billam (J) 2.5923p
Bilton (Percy) 4.63564p. Accum Ord 0.1p
Caolan Props 2.25p Chamberlin & Hill 1.148p
Chemring 0.8p, 0.86p
Courage Deb 1½, 3¼, 4pc, Ln 3¾, 5¼pc
Crosby Spring Interiors 0.55p
Doornkloof Gold Mining 21.68277p
Dubilier 0.5016p
Dundee & London Inv 1p
Elson & Robbins 1.509p
Elys (Wimbledon) Deb 3½pc, Ln 4½pc
English & International Trust 3.2p
Firestone Tire & Rubber 27½cts
Hedacling Investments Deb 3½pc
General Stockholders Inv Trust 1p
Grant Brothers 2.3626p
Greenell Whitley 1.5304p. A 0.308p
Guthrie 15p
Kayser Bondor 2.185p
Land Securities Inv Trust 5p
Lee (Arthur) 0.44p
Locker (Thomas) Ord & A 0.7125p
Northern Securities 3p
Pritchard Services 1.0122p
Quaker Oats 30cts
Southend Stadium Pfd 3.5p, Ord 0.388p
Stonehill 4.5p
UBM 2.76562p
Utico Pf 3½pc, 5pcPf 1.75pc
Wandsworth Variable Rate Red 1083 £6.6875
Wells Fargo 43cts
Whitbread Inv 2.9034p
Witan Inv 1.45p, 6 Ord 0.067p

SATURDAY, JULY 21

DIVIDEND & INTEREST PAYMENTS—
Exchequer Stk 10½pc 1995 5¼pc
First Castle Securities 1.205d
Portsmouth & Sunderland Newspapers 3.2981p

SUNDAY, JULY 22

DIVIDEND & INTEREST PAYMENTS—
Exchequer Stk 13½pc 1987 £4.3142. 12pc 1999-2002 6pc
Treasury Ln 13¼pc 1997 6⅝pc. 12¼pc 1992 6⅛pc

Public Works Loan Board rates

Effective from July 7

Years	Quota loans repaid by EIP†	Quota loans repaid At‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid At‡	Non-quota loans A* repaid at maturity§
Up to 5	12¼	12	12¼	13¼	13½	13
Over 5, up to 10	12½	12½	12½	13	13	13¼
Over 10, up to 15	12½	12¾	12½	13¼	13½	13¼
Over 15, up to 25	12½	12½	12½	13½	13½	13½
Over 25	12¾	12½	12½	13¼	13½	13½

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

Mercantile House Holdings Limited

—Continued

4. Associated Companies

The principal associated companies, none of whose shares are listed on a stock exchange, are as follows:—

Name of Company	Place and Date of Incorporation	Issued Share Capital and Proportion held
Gulf Financial Services Limited	Bahrain, 15th March, 1976	B.D. 50,000, 22.0 per cent.
Marshalls (Bahrain) Limited	Bahrain, 6th April, 1976	B.D. 10,000, 49.0 per cent.
Pan Arab Management KCSC	Kuwait, 20th October, 1976	K.D. 60,000, 24.5 per cent.
Quest Fund Management (Jersey) Limited	Jersey, 24th May, 1978	£25,000, 50.0 per cent.

5. Premises

The Company's head office at 66 Cannon Street, London EC4 is held on a lease of 15 years expiring in 1993 with rent reviews in March, 1983 and 1988. The present rent is £150,000 per annum. [illegible] London EC4 is in an adjacent building at 62 Cannon Street on a lease for 30 years expiring in 1982 [illegible]. The aggregate floor area of these premises amounts to 21,000 square feet, which is sufficient for the Group's present requirements. [illegible] The Group's offices abroad in Dublin, Hong Kong, Glasgow, Jersey, Panama, San Francisco, Singapore, Sydney and Toronto are [illegible] mostly of a short term nature, as are the offices of the associated companies in Bahrain and Kuwait.

6. Directors' Interests

(i) Upon completion of this Offer for Sale, the interests, all of which are beneficial, of the Directors in the share capital of the Company (excluding any Ordinary Shares which any of the Directors may purchase under this Offer for Sale) as they will appear in the register maintained under the provisions of the Companies Acts 1967 and 1976 will be as follows:—

	Ordinary Shares of 25p each
R. B. St. J. Barkshire	75,918
M. J. L. Kelly	103,464
K. Hughesdon	50,000
P. Stonebrook	123,484
P. G. Bainbridge	60,000
The Earl of Carrick	—
C. W. Pyle	—
M. A. Knowles	67,626
M. Pyle	75,000
M. J. Warren	60,000

(ii) Messrs. Barkshire, Kelly, Hughesdon, Stonebrook, Bainbridge, Knowles, Pyle and Warren have entered into agreements with the Company under which they have agreed to serve the Group [illegible]

(iii) No Director of the Company has or had any interest in any assets which, within two years before the date of this Offer for Sale, have been, or are proposed to be, acquired or disposed of by or leased to the Company or any of its subsidiaries. No contract or arrangement subsists in which a Director of the Company is materially interested and which is significant in relation to the business of the Company and its subsidiaries taken as a whole.

7. Other Significant Interests

[illegible]

8. Material Contracts

The following contracts, not being contracts in the ordinary course of business, have been entered into within the two years immediately preceding the date hereof and are, or may be, material:—

(i) Agreement dated 10th November, 1977 between (1) the Company (2) Marshalls and (3) Cabot [illegible]

(ii) Lease, dated 14th July, 1978, of 66 Cannon Street, London EC4 between (1) John Swire & Sons Limited and (2) Marshalls, referred to in paragraph 5 above.

(iii) Agreement dated 11th July, 1979 between (1) R. B. St. J. Barkshire for and on behalf of the Vendor Shareholders and (2) S. G. Warburg & Co. Ltd. (the "Sale Agreement").

(iv) Agreement dated 11th July, 1979 between (1) R. B. St. J. Barkshire and Others (2) the Company and (3) S. G. Warburg & Co. Ltd. (the "Subscription Agreement").

(v) Agreements dated 11th July, 1979 between (1) certain Directors and (2) the Company being the agreements referred to in paragraph 6(ii) above.

9. Sale Agreement and Subscription Agreement

S. G. Warburg & Co. Ltd. ("Warburgs") has agreed, subject to the Council of The Stock Exchange admitting the Ordinary Shares of the Company to the Official List not later than 23rd July, 1979, [illegible] for sale to the public at 160p per share. The Company will pay the costs and expenses of and incidental to the increase in its share capital and the application for the listing of its Ordinary Shares, its legal expenses and all accountancy expenses, the cost of printing, advertising and circulating this Offer for Sale, the fees and expenses of the Receiving Bankers and the Registrars and a fee to Warburgs. The total costs and expenses payable by the Company in respect of the Offer for Sale are estimated to amount to £272,000. Warburgs will pay its own legal expenses, a fee to the brokers and commissions to underwriters of 1¼ per cent. on the Offer for Sale price of each share.

10. Taxation

The Company may have been a close company as defined by Section 282 of the Income and Corporation Taxes Act 1970 during certain periods since incorporation. Having regard to advice received, the Directors are of the opinion that, following the Offer for Sale, the Company will not be a close company.

Under the Subscription Agreement, the executive Directors have given appropriate taxation indemnities (inter alia in respect of income tax, estate duty and capital transfer tax) in favour of the Company and its subsidiaries.

11. Inflation Accounting

The Directors have considered the possible effects of the system of inflation accounting proposed in Exposure Draft 24 issued by the Accounting Standards Committee of the professional accountancy bodies. In the opinion of the Directors, the effect on the calculation of the Group's earnings is unlikely to be significant.

12. General

(i) Neither the Company nor any subsidiary is engaged in or has, so far as the Directors are aware, any litigation or claim of material importance pending or threatened against it.

(ii) No amount is required for any of the matters referred to in paragraph 4 of the Fourth Schedule to the Companies Act 1948.

(iii) Price Waterhouse & Co. having given and have not withdrawn their written consent to the issue of this Offer for Sale with the inclusion of their report and the references thereto in the form and context in which they are included.

(iv) The documents attached to the copy of this Offer for Sale delivered to the Registrar of Companies for registration were the written consent referred to in sub-paragraph (iii) above, the statement of Price Waterhouse & Co. setting out the adjustments made in arriving at the figures contained in their report (as set out herein) and giving the reasons therefor, and copies of the material contracts referred to in paragraph 8 above.

13. Documents Available for Inspection

The Sale Agreement and the Subscription Agreement, both dated 11th July, 1979, referred to in paragraph 9 above and copies of the following documents may be inspected at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5DB during usual business hours on any weekday, Saturdays excepted, for a period of fourteen days following the date of this Offer for Sale:—

(i) the Memorandum and Articles of Association of the Company;

(ii) the audited consolidated accounts of the Company for the two financial years ended 30th April, 1979;

(iii) the documents delivered to the Registrar of Companies mentioned in paragraph 12(iv) above; and

(iv) the Accountants' Report.

Dated 11th July, 1979.

Procedure for Application

Williams & Glyn's Bank Limited, New Issues Department, P.O. Box 435, 67 Lombard Street, London EC3P 3DL, will receive applications which must be for a minimum of 200 shares or for the following multiples of shares:—

Applications for not more than 2,000 shares: in multiples of 200 shares.

Applications for over 2,000 shares and not more than 5,000 shares: in multiples of 500 shares.

Applications for over 5,000 shares and not more than 25,000 shares: in multiples of 1,000 shares.

Applications for over 25,000 shares: in multiples of 5,000 shares.

Preferential consideration will be given to applications received from employees of the Group (including executive Directors of the Company) up to a total of 200,000 shares if made on the special pink application forms made available to them. [illegible]

Applications must be made on the accompanying Application Form and forwarded to Williams & Glyn's Bank Limited, New Issues Department, P.O. Box 435, 67 Lombard Street, London EC3P 3DL, together with a sterling cheque or banker's draft for the full amount payable on application so as to arrive not later than 10 a.m. on Thursday, 19th July, 1979.

Each application must be accompanied by a separate cheque or banker's draft (drawn in sterling on a bank or branch thereof in England, Scotland or Wales) made payable to "Williams & Glyn's Bank Limited" and crossed "Not Negotiable". S.G. Warburg & Co. Ltd. reserves the right to present all cheques for payment on receipt and to reject any application, in particular multiple or suspected multiple applications. [illegible]

Acceptance of applications will be conditional on the Council of The Stock Exchange admitting the Ordinary Shares of the Company to the Official List not later than 23rd July, 1979. Moneys paid in respect of applications will be returned if such condition is not satisfied by that date and in the meantime will be retained by Williams & Glyn's Bank Limited in a separate account. If any application is not accepted or is accepted for fewer shares than the number applied for, the application moneys or the balance thereof, as the case may be, will be returned through the post at the applicant's risk.

Arrangements have been made for the registration by the Company of the shares now offered for sale free of stamp duty in the names of applicants or persons in whose favour Letters of Acceptance have been renounced, provided that, in cases of renunciation, Letters of Acceptance (duly completed in accordance with the instructions contained therein) are lodged for registration not later than 5th September, 1979. Share certificates will be issued on 3rd October, 1979.

Copies of this Offer for Sale with Forms of Application may be obtained from:—

S. G. Warburg & Co. Ltd., 30 Gresham Street, London EC2P 2EB	Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN	Mercantile House Holdings Limited, Mercantile House, 66 Cannon Street, London EC4N 6AE
Williams & Glyn's Bank Limited, 20 Birchin Lane, London EC3P 3DP		Williams & Glyn's Bank Limited, 67 Lombard Street, London EC3P 3DL

and from Williams & Glyn's Registrars Limited, P.O. Box 36, 31 St. Andrew Square, Edinburgh EH2 2AG, or 16 Old Broad Street, London EC2N 1DL and from the following branches of Williams & Glyn's Bank Limited:—11/15 Bennett Hill, Birmingham B2 5RS; 36/38 Baldwin Street, Bristol BS1 1NR; 2/6 James Street, Liverpool L2 7PH; 38 Mosley Street, Manchester M60 2BE; and 57 Mulcaster Street, St. Helier, Jersey and from The Royal Bank of Scotland Limited, 98 Buchanan Street, Glasgow G1 3BA.

Application Form

The application list for the Ordinary Shares now offered for sale will open at 10 a.m. on Thursday, 19th July, 1979 and may be closed at any time thereafter.

This Form, duly completed, together with a sterling cheque or banker's draft (drawn in sterling on a bank or branch thereof and payable in England, Scotland or Wales) made payable to "Williams & Glyn's Bank Limited" and crossed "Not Negotiable", representing payment in full at the application price, should be lodged with Williams & Glyn's Bank Limited, New Issues Department, P.O. Box 435, 67 Lombard Street, London EC3P 3DL not later than 10 a.m. on Thursday, 19th July, 1979. A separate cheque or banker's draft must accompany each application. No application can be considered unless these conditions are fulfilled. All cheques are liable to be presented for payment.

Mercantile House Holdings Limited

(Incorporated under the Companies Acts 1948 to 1967; registered in England No. 1059719)

Offer for Sale by S. G. Warburg & Co. Ltd. of 2,000,000 Ordinary Shares of 25p each at 160p per share payable in full on application

★Number of shares applied for	★★Amount enclosed at 160p per share
	£

Please fill in number of shares applied for and amount of attached cheque

Applications must be for a minimum of 200 shares or for the following multiples of shares. Applications for not more than 2,000 shares: in multiples of 200 shares. Applications for over 2,000 shares and not more than 5,000 shares: in multiples of 500 shares. Applications for over 5,000 shares and not more than 25,000 shares: in multiples of 1,000 shares. Applications for over 25,000 shares: in multiples of 5,000 shares. Only one number of shares can be considered and the right is reserved to reject any application, in particular multiple or suspected multiple applications.

To: S. G. WARBURG & CO. LTD.

I/We enclose a cheque for the above-mentioned sum★★, being the amount payable in full on application for the above stated number★ of Ordinary Shares of 25p each of Mercantile House Holdings Limited ("the Company"). I/We offer to purchase that number of such shares on the terms of your Offer for Sale dated 11th July, 1979 and subject to the Memorandum and Articles of Association of the Company and I/we hereby undertake and agree to accept the same or any lesser number in respect of which this application may be accepted. I/We hereby authorise you to procure my/our name(s) to be placed on the Register of Members of the Company as holder(s) of such of the said shares the right to which is not effectively renounced, and to send a renounceable Letter of Acceptance in respect thereof, and/or a cheque for any moneys returnable, by post at my/our risk to the address given in the box below.

I/We understand that due completion and delivery of this Application Form accompanied by a cheque will constitute a warranty that the cheque will be honoured on first presentation. I/We acknowledge that the Letters of Acceptance and cheques for any moneys returnable may be held pending clearance of applicants' cheques.

Important.—To comply with the provisions of the Exchange Control Act 1947, the applicant(s) must make the declaration contained in the following paragraph or, if unable to do so, must delete such paragraph and arrange for this Form to be lodged through an Authorised Depositary or an Approved Agent in the Republic of Ireland. No application can be considered unless this condition is fulfilled.

I/We hereby declare that I am/we are not resident outside the Scheduled Territories† and am/are not acquiring the above-mentioned shares as the nominee(s) of any person(s) resident outside those Territories.

Dated .... July, 1979. (1) Signature ....

Please use Block Capitals

	Christian or Forename(s) (in full)
	Surname (Mr., Mrs., Miss or Title)
	Address (in full)

(In the case of Joint Applications all further applicants must sign and complete below)

2. Signature ....
Christian or Forename(s) (in full) .... Surname ....
Address (in full) .... Mr., Mrs., Miss or Title ....

3. Signature ....
Christian or Forename(s) (in full) .... Surname ....
Address (in full) .... Mr., Mrs., Miss or Title ....

Please pin your cheque here

A Corporation may complete under hand by a duly authorised officer who should state his representative capacity.

No receipt will be issued for the payment on application, but an acknowledgement will be forwarded through the post in due course, either by a fully paid Letter of Acceptance for all the shares applied for, or by a fully paid Letter of Acceptance for part of the shares applied for and a cheque for any surplus money, or by the return of your cheque through the post if the application money in each case at the risk of the applicant(s).

†Exchange Control Act 1947

Authorised Depositaries are listed in the Bank of England's Notice EC1 and include Banks and Stockbrokers in and Solicitors practising in the United Kingdom, the Channel Islands and the Isle of Man. An Approved Agent in the Republic of Ireland is defined in the Bank of England's Notice EC10.

The Scheduled Territories at present comprise the United Kingdom, the Channel Islands, the Isle of Man, the Republic of Ireland and Gibraltar.

★★Examples of amounts payable on application:

shares	£	shares	£	shares	£
200	320	2,000	3,200	25,000	40,000
600	960	5,000	8,000	50,000	80,000
1,000	1,600	10,000	16,000		

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
17M	17S	Treasury 3pc '79‡‡	98 3/16	8.2	3.05	13.51
26M	26S	Electric 4¼pc '74-79	98 3/32	19.2	4.33	13.60
1M	1N	Treasury 10½pc '79‡‡	99 1/16	26.3	10.60	13.36
15M	15N	Electric 3½pc '76-79	97⅛	9.4	3.60	12.34
3M	3S	Treasury 9pc 1980‡‡	97 3/16	25.1	9.22	19.97
3S	3M	Treasury 9½pc '80‡‡	97½	9.4	9.74	12.63
15O	15J	Treasury 3½pc '77-80	95	9.5	3.68	9.29
15D	15J	Funding 5¼pc '78-80‡‡	96	9.5	5.47	9.87
25M	25N	Exchequer 13pc 1980‡‡	100⅛	18.4	12.98	12.79
15J	15Ja	Treasury 11½pc 1981‡‡	98⅞	8.6	11.63	12.30
15A	15F	Treasury 3½pc 1979-81	93¼xd	9.7	3.75	0.12
1O	1A	Treasury 9¾pc 1981‡‡	95¼	23.2	10.13	12.17
12D	12J	Exch. 8¼pc 1981	93⅞	8.5	8.79	11.89
4F	4A	Exch. 9½pc 1981	95½xd	26.6	9.95	12.04
21F	21A	Exch. 3pc 1981	88¾	15.1	3.38	9.00
17M	17N	Treas. Variable '81‡‡	97 11/16	10.4	14.07	14.90
23M	23N	Exch. 12¾pc 1981‡‡	100⅝	17.4	12.67	12.37
15J	15Ja	Treas. 8½pc '80-82‡‡	93	8.6	9.14	11.79
15A	15F	Treasury 3pc '82‡‡	87½xd	9.7	3.43	8.49
16S	16M	Treasury 14pc '82‡‡	103⅛	7.2	13.58	12.53
15O	15J	Treas. Variable '82‡‡	96 1/16	9.5	14.27	15.35
5J	5Ju	Treasury 8¼pc '82	91¼	1.6	9.04	11.80
22M	22S	Exch. 9¼pc 1982	91⅞	13.2	10.07	12.37
5Ju	5J	Exch. 8¾pc 1983	91⅜	1.6	9.58	11.85
21A	21F	Exch 3pc '83	81½	15.1	3.68	9.15
17S	17M	Treasury 12pc 1983‡‡	98½	8.2	12.18	12.48
17S	17M	Treas. 12pc '83 A‡‡	98⅛	—	12.23	12.61
24M	24N	Treas. Variable '83‡‡	94 3/16	17.4	14.57	15.73
18J	18Ju	Treasury 9¼pc '83	91½	11.6	10.11	11.98
12J	12D	Exch. 10pc 1983	92 3/16	8.5	10.85	12.33
15J	15Ja	Funding 5½pc '82-84‡‡	85½	8.6	6.43	9.52

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

INTERNATIONAL BANK

15F	15A	5pc Stock '77-82	83½	16.1	5.98	11.46

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Public Board and Ind.

[illegible]

Financial

Interest Due		Stock	Price £	Last xd	Yield Int.	Yield Red.
		[illegible] 13pc 1981	100½	2.1	12.94	12.60
		[illegible] '79	101	9.4	14.26	—
		[illegible] 14pc '83	103½	30.11	13.55	12.91
	30S	ICFC 5½pc Deb. '80-82	84½	12.2	6.66	12.20
31My	30N	Do. 6¼pc Db. '81-84	78	23.4	8.13	12.50
11J	11J	Do. 10½pc Uns. Ln. '86	91½	4.6	11.47	12.40
11J	11J	Do. 11pc Uns. Ln. '88	92½	4.5	11.89	12.38
11J	11J	Do. 11¾pc Uns. Ln. '90	94½	4.6	12.43	12.70
30 Je	31 D	Do. 7¼pc A Deb. '89-92	65½	4.6	11.26	12.90
31Mr	30S	Do. 7¾pc A Db. '91-94	66	12.2	12.42	12.70
31Mr	30S	Do. 9pc 'A' '91-94	77	12.2	12.17	13.00
28F	31A	Do. 8¾pc Ln. '92-97	75¾	29.1	12.20	12.80
—		Do. 12pc. Uns. Ln. 1992	99¾	—	12.95	13.10

FOREIGN BONDS & RAILS

Interest Due		Stock	Price £	Last xd	Div % Gross	Red. Yield
—		Antofagasta Rly.	30	8.71	—	—
1J	1J	Do. 5pc Pref.	45	18.6	—	—
1J	1J	Chilean Mixed	98	2.10	—	13.38
	—	Chinese 4½pc 1898	25	—	—	—
	—	Do. 5pc 1912	24	—	—	—
	—	Do. 5pc 1925 Boxer	12	—	—	—
1J	1D	German Yng. 4½pc	400	4.12	4½	—
1M	1N	Greek 7pc Ass.	38	1.5	3½	9.35
1F	1A	Do 6pc 28 Stab. Ass.	37	1.12	6	8.39
1A	1O	Do 4pc Mixed Ass.	34xd	2.7	4	5.88
May 1		Hung. '24 Ass.	52	2.5	—	5.10
30J	31D	Iceland 6½pc '83-88	68	27.11	—	13.05
10J	10J	Ireland 7½pc '81-83	84½	11.6	7½	12.53
1M	1S	Do 9¾pc '91-96	85¼	15.2	12.66	12.31
1J	1D	Japan 4pc '10 Ass	250	1.12	—	—
30J	31D	Do 6pc '83-88	70xd	2.7	6.00	11.20
1A	1O	Peru Ass. 3pc	150	2.10	3	1.75
30J	31D	S.G.I. 6½pc 1980	73p	2.1	6½	0.67
May 1		Turin 9pc 1991	$94½	2.5	9	9.53
15A	15O	Turin 6½pc 1984	DM91	16.10	6½	8.45
1F.M.A.N.		Uruguay 3½pc	97	1.11	3½	3.80

U.S. $ & DM prices exclude inv. $ premium

AMERICANS

Dividends Paid	Stock	£	Last xd	Div. Gross	C'vr	Y'ld Gr's
Apr. Oct.	ASA	12⅞	8.2	$1.00	—	3.5
September	AMF 5% Conv. '87	55	19.2	5%	—	f5.5
F.My.Ag.N.	Abbott-Labs.||	16xd	10.7	84c	—	—
Ma.Ju.Se.De.	Amax $1	18⅜	4.5	$1.8	—	4.4
Ja.Ap.Jy.O.	American Express	16¾xd	29.6	$1.80	—	4.8
F.My.Au.N.	Amer. Medic. Int.	15¼xd	27.3	60c	—	0.0
December	Asarco Inc.	902p	1.5	80c	—	4.0
No.Fe.Ma.Au.	Baker Intnl. Corp. $1	21⅝	30.1	44c	—	0.9
Mr.Ju.S.O.	Barnes Grp. $6⅔	823pxc	25.5	$0.66	—	3.6
O.Mr.Ju.SP.	Bendix Corp. $5	19¼xd	5.6	$3.00	—	7.0
M.Je.S.O.	Beth. Steel $8	10⅝	4.5	$1.40	—	6.1
Ja.Ap.Jy.O.	Brown'g Fer. c16⅔	659pxd	25.6	60c	—	4.1
F.My.Au.N.	Brunswick Corpn.||	677p	20.4	80c	—	5.4
F.My.Au.N.	Burroughs Corp. $5	33⅛xd	[illegible]	$2.00	—	2.7

[illegible]

S.E. List Premium 8¼% (based on US$2.2163 per £)

Conversion factor 0.9202 (0.8964)

CANADIANS

[illegible]

S.E. List Premium 8¼% (based on $2.5735 per £)

BANKS AND HIRE PURCHASE

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan.	Apr.	Dawes (G. R.)	13	[illegible]	—	—	—	—
—		Deutsche Bank DM50	£71	21.5	Q18%	—	3.3	—
—		F. C. Finance	65	23.4	2.2	4.9	4.8	6.0
—		First Nat. 10p	6¾	974	—	—	—	0.5
—		Do. Wrts. 75-83	2½	—	—	—	—	—
—		Fraser Ans. 10p	13½	87⅞	—	—	—	—
June	Dec.	Gerrard Natnl.	262	8.5	9.12	—	5.0	—
May	Nov.	Gibbs (A.)	45	8.5	2.2	—	7.3	—
Mar.	Aug.	Gillett Bros. £1	262	26.2	16.95	—	9.2	—
June		Goode D't Mry. 5p	29¼	12.3	0.25	—	1.7	—
Nov.	April	Grindlays	115	12.3	3.07	7.5	3.8	3.6
April	Oct.	Guinness Peat	94	12.2	N5.67	—	8.6	—
Dec.	July	Hambros	510xd	2.7	10.92	—	3.0	—

BANKS & HP—Continued

[illegible]

Hire Purchase, etc.

[illegible]

BEERS, WINES AND SPIRITS

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

CHEMICALS, PLASTICS

[illegible]

CHEMICALS, PLASTICS—Cont.

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[illegible]

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FOOD, GROCERIES, ETC.

[illegible]

FOOD, GROCERIES—Cont.

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

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AUSTRALIAN

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's
—		Acmex	12	—	—	—	—
—		ACM 20c	12	—	—	—	—
Nov.	Apr.	Bougainville 50 Toea	108	14.3	015c	2.0	7.2
—		BH South 50c	89	9.74	—	—	—
—		Central Pacific	760	—	—	—	—

TINS

COPPER

MISCELLANEOUS

GOLDS EX-$ PREMIUM

London quotations for selected South African gold mining shares in U.S. currency excluding the investment dollar premium. These prices are available only to non-UK residents.

Feb.	Aug.	Buffels R1	\$14¾	2.1	Q200c	ϕ	17.0
Aug.	Feb.	East Drie R1	\$12½xd	2.7	†Q115c	1.6	11.1
Aug.	Feb.	East Rand Prp. R1	975c	2.7	†Q10c	—	1.2
June	Dec.	F.S. Geduld 50c	\$25⅝	30.10	†Q315c	2.4	15.0
June	Dec.	Pres. Brand 50c	\$18	30.10	†Q150c	3.2	10.1
May	Nov.	St. Helena R1	\$15⅞	26.3	†Q190c	1.4	14.5
Aug.	Feb.	Stilfontein 50c	660c	2.1	†Q66c	ϕ	12.1
Aug.	Feb.	Vaal Reefs 50c	\$32¼	29.1	Q280c	2.7	10.5
Feb.	Aug.	West Drie R1	\$46¼xd	2.7	Q615c	1.7	16.1
June	Dec.	West Hldgs. 50c	\$34⅛	2.5	†Q415c	1.4	14.7
Feb.	Aug.	Western Deep R2	\$16⅛	29.1	Q147½c	2.1	10.9

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on the basis of net distribution; bracketed figures indicate 10 per cent. or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent. and allow for value of declared distributions and rights. Securities with denominations other than sterling are quoted inclusive of the investment dollar premium.

- ▲ Sterling denominated securities which include investment dollar premium.
- ● "Tap" Stock.
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ϕ Figures or report awaited.
- †† Unlisted security.
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividends or forecasts.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♠ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ♥ Excluding a final dividend declaration.
- ‡ Regional price.
- ‖ No par value.

a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Yield allows for currency clause. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1979-80. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1978-79. K Figures based on prospectus or other official estimates for 1978. M Dividend and yield based on prospectus or other official estimates for 1978. N Dividend and yield based on prospectus or other official estimates for 1979. P Figures based on prospectus or other official estimates for 1978-79. Q Gross. T Figures assumed. Z Dividend total to date. §§ Yield based on assumption Treasury Bill Rate stay unchanged until maturity of stock.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

" Recent Issues " and " Rights " Page 13

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REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

Albany Inv. 20p	26	......	Sindall (Wm.)	155	......
Bertam	26	......	IRISH		
Bdg'wtr. Est. 50p	405	......	Conv. 9% '80/82	£86⅝	......
Clover Croft	28	......	Nat. 9¾% 84/89	£71⅝	......
Craig & Rose £1	£11½	......	Fin. 13% 97/02	£84½	-½
Dyson (R. A.) A	26	......	Alliance Gas	62	......
Ellis & McHdy	68	......	Arnott	350	......

OPTIONS

3-month Call Rates

FINANCIAL TIMES

Monday July 16 1979

NEB calls on Whitehall to finance titanium plant

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

THE GOVERNMENT has been told by the National Enterprise Board that up to £20m of state aid should be provided as quickly as possible to finance the construction of a titanium production plant in Hartlepool because no private sector financial institution has agreed to provide the money.

The plant is urgently needed to manufacture titanium for Rolls-Royce aero engines following a decision by the present supplier, ICI, to withdraw from the business.

If new UK facilities are not provided in time to start production by 1982, Rolls-Royce will have to import titanium from Japan or the U.S., which would create technical problems. In addition, the Government might be reluctant to rely on a foreign supplier for a material which is vital to UK aero-engine production.

Because of this, the NEB has been trying to find private sector backers to join a consortium that would also include Rolls-Royce and IMI, which is also involved in the production process.

Major financial institutions have been approached and have had meetings with the NEB and the Industry Department, but none has yet agreed to make a sizeable investment.

As a result the NEB has told Sir Keith Joseph, Industry Secretary, that the project should go ahead with the state providing most of the cash. Rolls-Royce, which is an NEB subsidiary, and IMI would also provide some funds, though these are not expected to be much more than £2m or £3m.

It is understood that the NEB hopes a major financial institution might join the project later if the Government provides the initial cash.

Precisely how the state aid would be provided depends on what regional and other Government help is available after the Government announces its new regional policy plans today, and makes clear what role the NEB will play in the future of this type of project.

A site has been earmarked for the plant on British Steel Corporation land in Hartlepool. Planning permission has been sought.

Veto likely for NEB electronics move

BY MAX WILKINSON

THE NATIONAL Enterprise Board's plan to create a new electronics holding company out of its present portfolio is likely to be vetoed by the Government.

The plan was suggested recently by Sir Leslie Murphy, chairman of the NEB, in response to Government proposals to sell off some NEB holdings to the private sector.

The two most important holdings in the electronics sector are 50 per cent of Ferranti and 24.4 per cent in International Computers Limited.

It was suggested by the NEB that these companies be put together with other holdings in computer programming companies, Data Recording Instruments and possibly INMOS, the micro-electronics subsidiary, and NEXOS, a new office equipment subsidiary of the NEB.

The plan has been opposed by the Department of Industry, which does not believe the grouping could make a useful industrial unit.

The NEB's suggestion is regarded by City analysts as a defensive move in response to the Government attack on the industrial strategy role of the NEB.

Ministers will be told that investors would be unlikely to find a general electronics portfolio as attractive as some of the NEB's particular shareholdings, like that in Ferranti.

Sir Keith Joseph, the Industry Secretary, is expected to announce his general policy toward disposals by the NEB in the next few days. He is expected to ask for some £100m to be raised, but it is unlikely that he will specify exactly how this should be achieved.

The NEB will, therefore, have some freedom, but it could not form a new holding company without Ministerial permission. This would almost certainly be withheld.

No easy task to go private, Page 12

Tax group applies to regain seized papers

BY DAVID FREUD

THE ROSSMINSTER group of companies, whose premises were searched by the Inland Revenue on Friday on the grounds of suspected tax fraud, will seek an injunction for the return of all seized documents tomorrow.

It will also apply for the extension of an injunction granted on Friday evening preventing the Inland Revenue taking anything further from the Mayfair premises of Rossminster and the connected A.J.R. Financial Services.

The searches were conducted by about 70 Revenue officials, helped by 23 Scotland Yard detectives, under a warrant to search for evidence of suspected tax fraud.

The searches, which began at 7 am, took in the offices of the two companies and the homes of five individuals connected, or formerly connected, with the group.

These included Mr. Tom Benyon, the Conservative MP for Abingdon, who was a co-founder of Rossminster in 1973 and resigned as a director more than a year ago.

Other homes searched were those of Mr. Ronald Plummer, director of Rossminster, Mr. John Trotman, a former director and Mr. Richard Gardiner, who used to be an associate.

Also searched was the home of Mr. Roy Tucker, the tax adviser who has worked closely with Rossminster to market a series of tax avoidance schemes which have embarrassed the Inland Revenue.

The Government legislated retrospectively against a scheme devised by Mr. Tucker for which the Rossminster group provided financial services—the commodity-carry scheme—in last year's Finance Act.

The Revenue is believed to have taken about 12 vanloads of documents from the Rossminster and A.J.R. Financial Services offices before the injunction prevented further seizures at 6.30 pm.

The indiscriminate nature of the seizure is likely to be the main grounds of the application for injunctions tomorrow.

The plaintiffs, the two companies, Mr. Plummer and Mr. Tucker, will argue that the officials took documents without reading them.

Section 20C of the Taxes Management Act, under which the warrant was taken out, states that the officer may take only those things "which he has reasonable cause to believe may be required as evidence for the purposes of proceedings" in connection with tax fraud.

Yesterday the two companies emphatically denied any knowledge of an offence involving fraud in connection with or in relation to tax.

Mr. Benyon said the Revenue had grossly over-used its powers in collecting evidence. He had never given any tax advice personally.

PLO likely to gain Ankara office after role in ending siege

BY METIN MUNIR IN ANKARA

THE PALESTINE Liberation Organisation stands to make considerable political gains from its successful role as mediator in negotiating the surrender early yesterday of the four young terrorists holding 13 hostages in the Egyptian embassy in Ankara. Three people died earlier in the 45-hour siege.

The Turkish Government, which flew four PLO officials, led by Mr. Abu Firas from Baghdad to intervene, is expected to show its appreciation by allowing the PLO to open an office in Ankara. It had been dragging its feet on this issue for three years.

Mr. Bulent Ecevit, the Turkish Prime Minister, said: "I would like to mention with special gratitude the great contribution made by the PLO in the way of avoiding bloodshed." Mr. Yassir Arafat, the PLO leader, and his envoys had exerted "extraordinary efforts" so that the occupation "came to an end without turning into a big catastrophe," said Mr. Ecevit.

Turkey has been reluctant up to now to permit PLO representation because it believed Palestinian organisations had helped train left-wing Turkish militants. Mr. Firas, who held a news conference at the Iraq Embassy after his mission, said that the PLO office in Ankara would be "opened within a few weeks."

It is unlikely, however, that this new move would cause Turkey to change its Middle East policy.

Mr. Ecevit, whose own political position is shaky, has also benefited. He handled the emergency with determination and diplomatic finesse, involving such diverse powers as Iraq, Kuwait, Libya, Saudi Arabia and Syria in the effort to end the siege.

The four Palestinians, belonging to a militant and obscure faction called "Eagles of the Palestinian Liberation" killed two Turkish policemen before storming the Egyptian Embassy. One Egyptian was killed when he leapt from a window and another suffered fractures.

The Palestinians had demanded an aeroplane to fly them and their hostages out of the country and called on Turkey to sever ties with Israel and Egypt.

Anthony McDermott adds from Cairo: The Egyptian Government, relieved at the outcome of the siege, has asked the Turkish Government to supply full details about the four Palestinian raiders. Dr. Mustafa Khalil, Egypt's Prime Minister, in statements yesterday gave an impression of reconciliation. After threats of reprisals made while the siege was on yesterday, his government was now going to give official backing to the ferocious weekend attacks in the Egyptian Press, aimed mainly at Syria, but also against the Palestine Liberation Organisation.

The attacks on Syria came about because the "Eagles of the Palestinian Revolution," has admitted openly being connected with "Saiqa," the Syrian-dominated group in the PLO.

There is little doubt that hostility towards the Palestinians — of whom there are about 80,000 in Egypt—has been considerably exacerbated.

President Anwar Sadat yesterday sent a message of appreciation to Mr. Ecevit for his Government's efforts. Dr. Khalil was adamant that no concessions had been made to Palestinian demands, in particular for the release of one Syrian and a Lebanese arrested in March and sentenced to life imprisonment in Egypt for arms smuggling.

Oil licence delays may stop new drilling

By Ray Dafter, Energy Editor

THE GOVERNMENT is close to announcing its decision on the future role of British National Oil Corporation. A Cabinet committee has already discussed draft proposals and details should be made known next week.

In the meantime, several oil companies have warned the Government that delays in the confirmation of new offshore licences — partly caused by the Conservatives' review of BNOC — may prevent them from beginning exploration work this summer.

A postponement of drilling activity would be an embarrassment to Mr. David Howell, Energy Secretary, who last week repeated his call to industry to increase the pace of offshore drilling. He said it was "vitally important" that further exploration work should go forward.

At least six offshore groups have told Energy Department Ministers and officials that they would be ready to begin exploration work as soon as the sixth round licence conditions are approved.

One group, led by a U.S. independent company, has almost completed charter arrangements for a rig to begin drilling next month. That contract is now said to be in jeopardy.

At least three rigs may be lost to UK offshore drilling activity this year if the delay is prolonged. In some cases companies, not yet ready to begin drilling, are anxious to start seismic evaluation work so that exploration wells might be sunk early in next year's drilling season.

The groups ready to begin work are among those conditionally awarded licences on 42 blocks on the UK Continental Shelf. They have urged the Government to confirm operating agreements and work programmes already worked out with the corporation.

But here the Department is in a quandary for it has not yet decided BNOC's future role.

The consensus view in the industry is that the corporation will be allowed to remain a sizeable operating company, largely as a measure of oil supply security for the UK.

But a number of its privileges will almost certainly be axed, and it may be encouraged to sell off some of its interests to private enterprise.

Oil company executives have said that it may be disruptive to the industry to dismantle BNOC completely. But many have urged the Government to divest the Corporation of its monitoring powers and return the full watchdog role to the Department of Energy.

Hope for Muzorewa in Kenya statement

BY OUR FOREIGN STAFF

AFRICA must not close its eyes to the "very significant change" which has taken place in Rhodesia since the May elections, according to Mr. Mwai Kibaki, Kenya's Vice-President.

His statement is one of the most favourable yet by an African state about the new administration of Bishop Abel Muzorewa. It apparently comes as part of an attempt by the moderate African states to prevent this week's summit meeting of the Organisation of African Unity from coming out solidly in support of the Patriotic Front of Mr. Robert Mugabe and Mr. Joshua Nkomo.

Mr. Kibaki, who is representing Kenya at the OAU summit in Monrovia, said his country was not satisfied with the new Rhodesian constitution and the manner in which the elections were conducted.

But he added: "We now see a Prime Minister who is an African. Africans in Rhodesia have participated in choosing the present members of parliament. So to us there is no point in anyone closing his eyes and refusing to see the new realities."

He said Africa should not appear to be encouraging its people to fight each other and called for all the Rhodesian leaders to meet at one table to settle the problem constitutionally. A number of moderate African states are reported to favour such a conference and Zaire said yesterday that it will ask the OAU to sponsor a conference of Britain and all the warring parties in Rhodesia.

The more radical African states are reported to be considering outright recognition of the Patriotic Front—a move which would automatically preclude any further OAU attempt to organise an all-party conference on Rhodesia.

Mr. Mugabe and Mr. Nkomo, however, have told the Mozambican magazine, Tempo, that they would consider an all-party conference.

The next British move is expected to be the despatch before the Commonwealth Conference due in Lusaka on August 1 of its special envoy, Lord Harlech, for a further visit to the front-line states.

Weather

UK TODAY

DRY and bright generally some cloud and rain in Scotland.

London, S.E., E. Anglia, S. and E. England, West Country, Midlands, Ch. Islands, S. Wales
Mainly dry, bright periods. Max. 24C (75F).

N. Wales, Lakes, N.W. England
Occasional drizzle becoming brighter. Max. 18C (64F).

N. England, Borders, Edinburgh and Dundee, Moray Firth
Rain with some bright intervals. Max. 19C (66F).

Rest of Scotland, Orkney and Shetland, N. Ireland, I. of Man
Cloud with rain and drizzle. Max. 15C (59F).

Outlook: Dry and warm, occasional rain in north.

WORLDWIDE

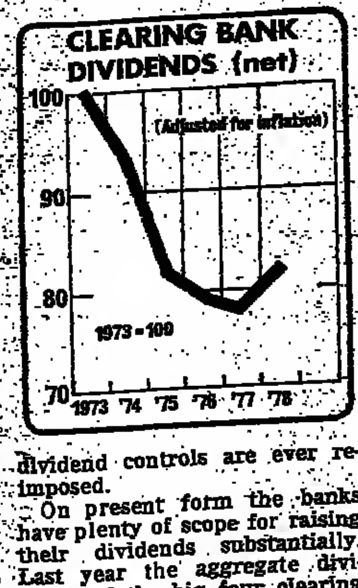
		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	S	25	77	Lisbon	S	31	88
Algiers	S	28	82	Locarno	S	28	82
Amsdm.	C	16	61	London	C	16	61
Athens	S	31	88	Luxmbg.	C	18	64
Bahrain	S	35	95	Madrid	S	31	88
Barcina.	S	26	79	Majorca	S	29	84
Beirut	S	28	82	Malaga	S	29	84
Belfast	C	14	57	Malta	S	29	84
Belgrd.	R	18	64	M'chstr	C	16	61
Berlin	C	16	61	Melbne.	C	11	52
Biarritz	F	16	61	Milan	S	26	79
Bmghm.	C	16	61	Montrl.	C	28	82
Blackpl.	F	13	55	Moscow	F	18	64
Bordx.	F	15	59	Munich	S	23	73
Boulgn.	C	15	59	Nairobi	C	21	70
Bristol	C	16	61	Naples	S	27	81
Brussels	C	14	57	Nwcstl.	C	16	61
Budpst.	F	23	73	N. York	S	28	82
B. Aires	C	13	55	Nice	S	25	77
Cairo	S	33	91	Nicosia	S	34	93
Cardiff	F	18	64	Oporto	S	25	77
Cape T.	S	14	57	Oslo	C	15	59
Chicago	S	26	79	Paris	F	21	70
Cologne	C	15	59	Perth	S	16	61
Cpnhgn.	C	17	63	Prague	S	21	70
Corfu	S	29	84	Reykjvk.	C	13	55
Dublin	C	14	57	Rhodes	S	29	84
Dbrvnk.	S	28	82	Rio J'o	S	24	75
Ednbgh.	C	13	55	Roma	S	29	84
Faro	S	27	81	Salzbrg.	C	21	70
Florence	S	27	81	Singapr.	S	30	86
Frankfurt	C	17	63	Stckhm.	C	17	63
Funchal	S	24	75	Strasbg.	C	17	63
Geneva	S	22	72	Sydney	S	18	64
Gibrltr.	S	27	81	Tehran	S	34	93
Glasgow	C	15	59	Tel Aviv	S	30	86
G'nsey	F	15	59	Tenerife	S	24	75
Helsinki	R	22	72	Tokyo	R	22	72
H. Kong	S	30	86	Toronto	S	22	72
Innsbrk.	F	21	70	Tunis	S	30	86
Invrnss.	R	13	55	Valencia	S	30	86
I.o.Man	C	13	55	Venice	S	26	79
Jersey	C	17	63	Vienna	F	22	72
Jo'burg	S	18	64	Warsaw	F	20	68
L. Plms.	S	24	75	Zurich	S	22	72

C—Cloudy. F—Fair. R—Rain. S—Sunny.

THE LEX COLUMN

Payout policy at the Big Four

Later this week the first of the big four clearing banks, Lloyds, announces its interim profit figures and on all the evidence they should be very good. The combination of sharply higher interest rates and buoyant loan demand should mean that, in aggregate, the four banks' interim profits will rise by 50 per cent plus.



For the full year analysts are expecting an increase of around a third for all banks except Midland, which has sold its profitable insurance broking operations. Most assume that interest rates will fall fairly significantly later this year and after a good first half, second half profit growth will slow down. However, the longer minimum lending rate stays at 14 per cent, the bigger the profit bonanza for the banks.

Underperformance

But the big question mark hanging over bank shares at the moment has nothing to do with their immediate profitability but concerns their future dividend policy. For several years now bank shares have underperformed the market, but so far this year the FT-Actuaries banks index has risen roughly twice as fast as the market as a whole. The hope is that higher bank profits will lead to hefty increases in dividend.

As yet the banks have said remarkably little about what they plan to do about their dividends. Given their inherent conservatism it seems most unlikely that they will take any big leaps at the interim stage. High profits tend to make the clearers embarrassed and with delicate pay negotiations in train they will not want to offer hostages to fortune by immediately raising dividends sharply. Better to wait till the end of the year and, likely as not, most of the banks even then will fudge the issue.

The problem for both the banks themselves and the stock market is that it is very difficult to decide what is the proper payout level for banks. It could be argued that during the dark days of the mid-1970s the banks overdistributed and then had to ask shareholders for the money back via rights issues. They will not want to make the same mistake again.

So, with bank profits heading for a cyclical peak and likely to fall in 1980, banks may be encouraged to err on the side of caution with the current year's dividends. But the danger is that the banks may be so overcautious with their dividend increases that this could lead to another period of prolonged underperformance for bank shares especially if dividend controls are ever reimposed.

On present form the banks have plenty of scope for raising their dividends substantially. Last year the aggregate dividends of the big four clearing banks were covered 6.6 times on published earnings and after adjusting for a full tax charge the cover falls only to 4.9 times. This year earnings will rise considerably and on conservative assumptions the banks could afford to increase their net dividends by over a quarter without reducing their current high cover levels. Similarly, if one adjusts bank dividends for inflation it can be seen that in real terms dividends last year were nearly a fifth below their 1973 level. Just to keep pace with inflation this means that the banks would need to increase their dividends by well over a third in the current year.

Even in the context of the bank's inflation adjusted earnings they still have plenty of leeway to increase their distributions. On the basis of a full tax charge, 1978 dividends were covered on average 3.7 times with individual bank's cover ranging from 4.5 times in the case of Barclays to 3.1 times in the case of Midland Bank.

Among the four, Barclays and Lloyds are best placed to give away most — both have historical dividend cover of over five times fully taxed earnings. By contrast Midland and National Westminster have lower dividend covers and both have made, or are planning, major U.S. acquisitions, so they could easily argue that they need to retain more of their earnings to pay for their purchases.

In arriving at their final dividend the banks will have to take a number of factors into consideration. The first and most obvious is that after years of dividend restraint they once again have to decide what is an adequate level of cover for dividends. Rules of thumb that applied in the early 1960s may no longer be suitable for the 1980s. The experience of the big U.S. banks gives a possible clue. Citibank and Bank of America, for example, maintain a dividend cover of around 3.5 times.

However, there are two reasons why both banks will be reluctant to boost their dividends to this extent. The first is based on an emotive fear that large dividend increases will further antagonise the critics of the bank's high profits. The second and more serious worry is that once they have substantially increased the payout profits might slump in the early 1980s.

It is much too early yet to forecast how the banks will fare in the next few years. At the moment brokers are assuming that interest rates will be kept in single figures next year and preliminary estimates are that bank profits will fall by 10 to 20 per cent. This would still give higher profits in 1980 than last year.

Double dividend

But U.S. banks differ from British banks in many ways and this probably includes attitudes towards acceptable levels of dividend cover. However, stockbrokers Laing and Cruickshank have taken a stab at assessing the theoretical possibilities and practical limitations for UK banks' future dividends in a recent circular. According to L & C the banks should deduct the finance required for spending on their infrastructure and the maintenance of their free equity ratio from their attributable profits. Assuming banks want to maintain a dividend covered twice by the balance of attributable profits L. & C. reckons that Barclays and Lloyds could easily double their dividends. This would put both shares on a yield close to 9 per cent at current prices.

The next decade

Looking beyond 1980 the outlook for bank profits is much more hazy. There was a brief spell at the end of 1977 when interest rates fell to 5 per cent and the clearing banks found life distinctly uncomfortable since at these levels much of their clearing bank branch business was unprofitable.

If interest rates should ever return to these levels for long periods the banks would have to undergo some drastic surgery. These considerations will make the banks err on the side of caution when considering their longterm dividend policy. However, a minimum increase of 25 per cent in 1979 dividends would seem a reasonable target if the clearers do not want to be accused of unnecessary parsimony.

Regional industry aid cuts

Continued from Page 1

help make up the target reduction in spending of 20 per cent.

On selective aid under Section 8 of the 1972 Industry Act, Sir Keith is expected to announce that existing applications for aid under the £150m Selective Investment Scheme will continue to be processed, and that more aid will be allocated in the future on an ad hoc basis against strict criteria.

This type of aid is used in all areas of the country, topping up regional grants where they are available, to attract major investment projects into the UK and persuade British companies to accelerate their own plans.

Several major investment schemes have been held up while Sir Keith has reviewed his policy. They include a £40m aid package for a £134m Dow Corning silicon development in South Wales.

Sir Keith is expected to announce that selective aid schemes worth £300m for individual sectors of industry are to be continued but will, in general, not be replaced when they expire.

The importance that industry places on the various forms of Industry Department aid are underlined today in a statement by the Confederation of British Industry.

It details a memorandum sent a week ago to Sir Keith, and says that the Goverment should "exercise caution" in making regional aid cuts.

But the CBI also believes that "aid to industry should be reduced as profitability improves."

At present about 43 per cent of Britain is designated as assisted areas, roughly comprising everything north of a line from the Wash to Wrexham and west of a line from Wrexham to Plymouth. This is the half of the country where Labour is strongest, and so the Opposition is certain to look at the proposals very critically.

The Government aim is to concentrate aid much more on areas of greatest need. Some areas might be upgraded.

One obvious candidate would be Corby, Northants, where the ending of steelmaking could push unemployment in the town over 20 per cent.

The cuts in the qualifying areas are being made by radically redrawing the map of assisted areas.

Some development areas will be downgraded to intermediate status, and many intermediate areas taken from the net altogether.

This last step may not be strongly opposed, except in the areas affected.

One factor industry will look for is the length of the transitional period in which grants will continue to be paid at the higher rate in the down-graded areas.

The Tory election manifesto promised no "sudden, sharp changes." But six to eight months might be the minimum allowed if the Government is to make any real savings.

Today's announcements are likely to lead to a row in Parliament because the intention is to release the news in the form of a Commons written reply to a "planted" question. This would prevent MPs from directly questioning Sir Keith.

The Government's defence of such a procedure is that the package is extremely complicate and it is better for all the proposals to be published in detail before MPs debate them.

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